Kingworld Medicines Group Limited

金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01110

2011 ANNUAL REPORT

Healthy Life with Kingworld

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Zhao Li Sheng *(Chairman)*
Ms. Chan Lok San
Mr. Zhou Xuhua
Mr. Lin Yusheng

Independent Non-executive Directors

Mr. Zhang Jianqi
Mr. Duan Jidong
Mr. Wong Cheuk Lam

COMPANY SECRETARY

Mr. Chan Hon Wan

LEGAL ADVISORS TO THE COMPANY

King & Wood Mallesons
9th Floor, Hutchison House
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AUDITOR

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Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Lin Yusheng
Mr. Chan Hon Wan

REGISTERED OFFICE

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Cayman Islands

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Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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PRINCIPAL BANKERS

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Agricultural Bank of China
Shenzhen Zhongxinqu Sub-branch
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The PRC

Nanyang Commercial Bank
Western Branch
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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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26th Floor, Tesbury Centre
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Wanchai
Hong Kong

AUDIT COMMITTEE

Mr. Wong Cheuk Lam (Chairman)
Mr. Duan Jidong
Mr. Zhang Jianqi

REMUNERATION COMMITTEE

Mr. Zhang Jianqi (Chairman)
Mr. Duan Jidong
Mr. Wong Cheuk Lam

NOMINATION COMMITTEE

Mr. Duan Jidong (Chairman)
Mr. Zhang Jianqi
Mr. Wong Cheuk Lam

STOCK CODE

01110

WEBSITE ADDRESS

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Financial Highlights

	For the year ended 31 December		Changes in %
	2011	2010	Increase/
	RMB '000	RMB '000	(Decrease)
Financial Highlights			
Turnover	**685,562**	638,046	7.4%
Cost of sales	**(524,730)**	(497,899)	5.4%
Gross profit	**160,832**	140,147	14.8%
Profit before taxation	**73,816**	58,342	26.5%
Profit attributable to owners of the Company	**51,031**	42,863	19.1%
Basic and diluted (RMB cents)	**8.20**	9.18	(10.7)%
Proposed final dividends per share (HK cents)	**4.04**	3.71	8.9%
Liquidity and Asset-liability Ratio			
Liquidity [(1)]	**2.4**	1.8	33.3%
Quick ratio [(2)]	**2.2**	1.7	29.4%
Asset-liability ratio [(3)]	**7.6%**	26.4%	(71.2)%

Notes:

(1) Liquidity is calculated by dividing the total current asset by the total year-end current liabilities.

(2) Quick ratio is calculated by dividing the difference between current asset and inventories by the total year-end current liabilities.

(3) Asset-liability ratio is calculated by dividing total bank loans by total assets and multiply by 100%.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board" or "Directors") of Kingworld Medicines Group Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2011 (the"Year Under Review") for all shareholders (the "Shareholders").

LAST YEAR REVIEW

2011 was the first year after the Company's listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), where we faced new opportunities as well as challenges. Sovereign debt crisis happened to break out in Europe and United States, and there was a turmoil in global economy and slowdown in the growth of economy in China. Under such situation, the Group still needs to maintain its market development and sales increase on one hand, and to attend to the operating and financial conditions of each distributor on the other hand, so as to ensure the stability of the financial condition of the Group. At the same time, the publication and the implementation of the Outline for the Plan for Development of the National Pharmaceutical Distribution Industry triggered acceleration in the mergers and reorganizations within the industry. The market became more focused and brought considerable pressure and challenges to the Group.

On the other hand, as China is one of the largest Pharmaceutical markets in the world, in addition to its aging population and continuous economic development, the demand for medicines and healthcare products has been climbing. In addition, it is anticipated that on-going medical reform, particularly the expansion in the coverage of medical insurance as well as the increase in the level of medical insurance premium level for rural residents, will be helpful to push further growth in the China Pharmaceutical market, encouraging rapid increase in sales revenue and business opportunities arising from the industry.

Chairman's Statement

1. OPERATION RESULTS SUSTAINED STABLE GROWTH

Under the leadership of the Board, together with the joint efforts from all staff, the Group enlarged the scale of leading products as its main strategy during the Year Under Review, developed new products and new markets as its focus, and used the setup of Product Display Booths as a way to breakthrough. The Group adopted effective sales strategies and measures to continue the increase of its market share, so that the turnover and profit of the Group sustained stable improvement. During the Year Under Review, the turnover of the Group was RMB 685.6 million, representing a year-on-year increase of 7.4%. The profit for the year of the Group reached RMB 51.0 million, representing an increase of 19.1% compared to RMB 42.9 million last year. Basic earnings per share was RMB 8.20 cents, representing a decrease of 10.7% when compared to RMB 9.18 cents last year mainly due to the increase in the weighted average number of ordinary shares. The Board recommended a distribution of final dividend of HK 4.04 cents per share for the year of 2011, representing an increase of 8.9% when compared to HK3.71 cents for the year of 2010, to express its gratitude for the trust and support from the Shareholders.

2. VERTICAL EXPANSION OF DISTRIBUTION NETWORK AND NEW MARKETS

The Group has been devoted to the exploration of distribution network and development of new markets. Bulk buying business was kicked off with large State-owned entities and business units. Internet sales was commenced through the cooperation with a local distributor in Beijing. During the Year Under Review, the Group explored the existing sales network at the second and third tier cities in an in-depth manner. End-user promotion activities were conducted to drive sales and attained ongoing optimization of customer base. Incentives of the distributors and the sub-distributor customers were enhanced. The Group's products quickly reached the end-user drug stores through the distribution network in an orderly manner. In terms of channel network construction, the Group also continued to optimize the customers base, which further perfected the extensive distribution network in China, covering approximately 243 distributor customers and approximately 420 sub-distributor customers.

The Group also placed emphasis on the construction of end-user network. Our distribution network plays a crucial role in the distribution business in medicines and healthcare products. The Group mainly conducts sales of distributed products through working directly with its distribution customers and sub-distribution customers. Through setting up Product Display Booths in retail pharmacies and commercial supermarkets in China, mainly through setting up Product Display Booths under the name of "Kingworld Healthy Family" (金活健康之家), the Group promotes the brands and products it distributes, increases market share of the distributed products and quickly builds up the image of the products and brand of the Company. During the Year Under Review, there was a substantial growth in the number of Product Display Booths under the name of "Kingworld Healthy Family" in a total of 38 cities at 12 provinces in China, the Product Display Booths increased from approximately 1,500 to 3,000 during the Year Under Review. The coverage of end-user outlets also increased significantly, with the number of retail outlets increasing from a total of 17,000 to 50,000. The orderly establishment of a large number of Product Display Booths and end-user retail outlets implies the achievement secured by the Group in the development of end-user network and the increase in market share.

3. NEW HEIGHTS OF INTRODUCTION OF NEW PRODUCTS

The Group has always emphasized on the introduction of new products, and has used its best endeavours to capture the right timing in attaining the best. The Year Under Review was a year with the highest number of new products introduced by the Group with the greatest strength ever since. A total of more than 10 types of new products were introduced into the market, and product categories were also increased from 7 main categories to 10 main categories. Through ongoing communications with the customers and market survey conducted from time to time, we have been committed to develop and explore more new products and brands with good potential, which will perfect the brand's product mix. During the Year Under Review, the Group kicked off a new project of Nin Jiom Chuan Bei Lingzhi Ginseng Koa (京都念慈菴靈芝洋參蜜膏) jointly with Nin Jiom Medicine Manufactory (Hong Kong) Limited (京都念慈庵總廠有限公司) and Great Pleasure Company Limited (偉沂企業有限公司). The product was launched into the market during the Year Under Review, and received recognitions and endorsements by the consumers in the market. In addition, the "Disney's Gold 100 Band-Aid" awarded to the Group by Walt Disney (Shanghai) Co., Ltd. was successfully launched into the market. We will continue to expand the range of patch products in future to enrich our product mix. This category can also combine with the Group's Product Display Booths under the name of "Kingworld Healthy Family"（金活健康之家）, which can enhance the sales and market share of the products distributed by the Group. In addition, we will also include an organic milk powder from United States into the range of products to be launched in the Hong Kong market. In the future, the Group will grasp opportunities promptly to introduce new products with good potential from time to time, so as to gradually expand its distribution business of medicines and healthcare products in Hong Kong.

4. ONGOING OPTIMIZATION OF THE PRODUCT MIX

Since the establishment of the Group, it has always focused on the distribution of branded and imported medicines and healthcare products in the PRC. The Group has been managing 49 medical products purchased from 13 different suppliers from United States, Japan, Canada, Hong Kong, Taiwan, Thailand and China, including over 60 medicines under 10 major product ranges. Many products distributed by the Group are well-known in the industry, including Nin Jiom Pei Pa Koa（京都念慈菴蜜煉川貝枇杷膏）, Taiko Seirogan（喇叭牌正露丸）, Kawai Liver Oil Drop（可愛的肝油丸）product range, Flying Eagle Wood Lok Medicated Oil（飛鷹活絡油）, Imada Red Flower Oil（依馬打正紅花油）, Kyushin Pill（救心丸）, and Mentholatum（曼秀雷敦）product range. The Group has successfully established long-term and close cooperation relationships with suppliers. Among them are the suppliers of Kawai Liver Oil Drop and Kyushin Pill, Tai San Enterprise & Trading Company (since 1996), Nin Jiom Medicine Manufactory (Hong Kong) Limited, Great Pleasure Company Limited (since 1997), and the supplier of Taiko Seirogan, Etta Trading Company Limited (since 1998). Since the establishment of the Group, there has been continuous cooperation between the Group and its five largest suppliers for seven to fifteen years.

5. ENHENCEMENT OF THE STANDARDS OF CORPORATE GOVERNANCE

The Group firmly believes that maintaining a high level of internal control and corporate governance is crucial to its long-term development. As such, the Company has reinforced internal control of its sales team during the Year Under Review. Apart from setting up standardized targets and schedules in respect of routine visits, customer relationship maintenance, marketing activities and sales of its distribution customers and terminal retail pharmacies, we also linked the results of these routine visits to the sales and display of end-user drug stores. At the same time, the remuneration of sales staff is directly linked with the performance of such targets. This was considered as an effective means to drive the sales staff to push up the sales of end-user drug stores or distributors that he or she is responsible for. In addition, the sales staff were also held responsible for the retention of the end-users at the Group's Product Display Booths under the name of "Kingworld Healthy Family"（金活健康之家）. Moreover, the Group also secured its development in information technology and network technology. Information technology was applied comprehensively to further enhance the efficiency and management standard of our operation. Work flows and risk control over different job functions were optimized. During the Year Under Review , the Group confirmed the plan to upgrade the existing ERP system and to adopt the SAP in future.

During the Year Under Review, the Group initiated the planning work on its strategic development in the third phase, so as to assure sustainable development of the competitiveness of its core businesses. We have engaged strategy experts well-known in the pharmaceutical industry in China to formulate the mid-term strategic development plan jointly with the Board and the senior management of the Group.

Following the successful listing of the Company on the Stock Exchange, the Group will continue to improve the level of its corporate governance, ensuring that it will align with the international market promptly, so as to reinforce risk control and profit-making capabilities of the Group.

6. NUMEROUS HONORABLE TITLES AWARDED

During the Year Under Review, the Group has received a range of honorable titles. Among them, the Group was again recognized as one of the Top 100 Import Enterprises of 2010 Chinese Medicines and Healthcare Products, as well as receiving a AAA credit rating from the China Health Care Association (the only company from Guangdong, out of the five companies to receive such rating in China); the Company was also awarded the "Community Honour Award" at the Hong Kong Community Chest Anniversary Award Ceremony; in addition to being appointed as the sole provider of healthcare products for the BOAO Forum for Asia, the Company was also nominated as an executive member of the Guangdong Health Care Industry Association; besides being named as "2011 Outstanding Partner" by Succhi Pharmaceutical Group, and "2011 Outstanding Business in Hong Kong" by the Hong Kong magazine - Hong Kong Economic Digest, the Company was also awarded "Key Taxpaying Enterprise" in the Shengzhen Luohu area. All these titles proved that "Kingworld" is a well-known distributor in imported medicine and healthcare products in the PRC, and that it received extensive recognition and support from the mass market, and reflected the Group's commitment to its social responsibility as a socially responsible enterprise.

FUTURE OUTLOOK

For the coming year 2012, outlook for China's macro economy is optimistic, and as the new medical reform implementation takes root, it will bring great opportunities for the development of the pharmaceutical industry. A special project team of strategy consultant experts in the industry has been established by the Group, who will be responsible for developing the Group's mid-term development strategy for the next 5 years, based on research analysis of internal and external environment, as well as future consumer habit and market trends. Under the direction of the strategy, the Group will be able to fully exploit its branding and network advantages, utilizing the opportunities in the industrial developments to accelerate the Group's own development.

1. ACTIVE DEVELOPMENT OF UNTAPPED MARKET

China is a vast country, with uneven levels of economic development. Although Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴川貝枇杷膏) remains the most popular brand in the Group's cough relieving product range, market penetration in some of the second and third tier cities are still relatively low, new untapped markets have yet to be developed. Besides, the Group will continue to reinforce its development in the hospital market and develop new customers in Shanghai, Hangzhou, Ningbo, Xi'an, Nanchong and Nanjing.

The Group's other mainstream products like Taiko Seirogan and Imada Red Flower Oil of Kingworld achieved satisfactory sales growth and sales target during the Year Under Review. However, market share of both products remains low, with some regions remaining untapped. Therefore, in addition to using established sales distribution channels to increase sales, the Group will continue to develop its large state-owned enterprises businesses and expand bulk buying business in order to increase product sales. Moreover, the Group plans to explore opportunities in markets with low sales volume by adopting new products combinations, so as to develop new markets. These strategies will be beneficial for the Group's continued market share development in niche markets.

2. SUPPORTING OTHER PRODUCTS TO BECOME MAINSTREAM PRODUCTS

The Group will increase the market share of the Heart Tonic Kyushin Pill by increasing the number of franchise of the Kyushin Shops, as well as utilizing the network of nursing homes, clinics and government agency offices to develop a new client base for the Kyushin Pills, in order to establish Kyushin Pills's mainstream position amongst the Group's products .

With the supporting documents provided by manufacturers, the Group will continue to work closely with relevant government departments, striving to obtain the government approval to import the Kawaii Liver Oil Drop range of products. After the import of the Kawaii Liver Oil Drop resumes, the Group expects its sales will increase.

3. CATEGORY MANAGEMENT OF EXISTING PRODUCTS

Segmented by the different treatment functions of the Group's mainstream products, the Group will continue to develop the product line of corresponding treatments. For instance, in addition to cough syrup (Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴川貝枇杷膏) and candy (Nin Jiom Chuan Bei Pei Pa Cadies (京都念慈菴川貝枇杷糖) products , a new product was introduced in the Nin Jiom family – Lingzhi Mel (靈芝蜜). Whereas in the influenza treatment product line, in addition to Gan Mao Qing Capsule (感冒清膠囊), a new product - Puji Anti-flu Granules (普濟抗感顆粒), will be introduced to the market in the future, providing relieve for cold, influenza and avian flu.

4. FURTHER ENRICHMENT OF THE PATCH PRODUCT LINE

During the Year Under Review, the Disney franchise "Disney's Gold 100 Band-Aid" product line was officially launched. In order to ensure the marketing strategy of the product remains effective and on target, the Group has established a project team with professional strategy company, so as to set the strategic directions of the cultural and creative aspects of the product, as well as to develop new sales channel accordingly. The Group also utilized the BOAO Forum for Asia as a platform to promote the Group's corporate image and product reputation, hence boosting product sales. Moreover, the Group will continue to use its best endeavor on the preliminary research and planning work of the "Disney's Gold 100 Fever patch" products range.

5. ACTIVE INTRODUCTION OF RETAIL DISTRIBUTION CHANNELS

In accordance with the "Outline for the Twelve Five-Year Plan for Development of National Pharmaceuticals Distribution Industry ", the government will support local influential chain terminal to increase their distribution concentration. Thus, future chain stores will increase market share of the OTC medicines retail market, particularly in developed areas. At the same time, state-supported public policies on the rural medical market raised the medical insurance premium for rural residents (increased from RMB80/person to RMB360/person), representing vast opportunities emerging from the "third party end-user terminal"in the rural area.

6. INCREASE THE QUALITY OF THE "KINGWORLD HEALTH FAMILY" PRODUCT DISPLAY BOOTHS

The "Kingworld Health Family" product display booths have always been a platform for the Group to showcase its products, raise brand recognition, increase customer communication and identify customer demands, while at the same time acting as an embodiment of the Group as a branding representative. From the customer's perspective, all products sold at the "Kingworld Health Family" product display booths are brand-name products; therefore by the same vein, all products available from our display booths will become brand-name products through our Group's reputation. In 2012, the Group plans to increase the number of product display booths by 1,000 units from existing 3,000 units to 4,000 units. The quality and design of the product display booths will also be improved.

In order to increase sales and boost brand reputation, the Group has cooperated with world renowned advertising agency on the brand promotion and shooting. Utilizing the products and product display booths to assimilate the Group's brand name, so that consumers will relate with the "Kingworld Health Family" product display booths and hence create buying desire. "Kingworld Health Family" represents Brand-name, Trust, Reliability and Quality.

7. EXPLORE NEW SALES CHANNEL AND NEW MARKET

In recent years, e-commerce has become more and more popular, with the number of online-consumers reaching over 400 million in China; the Internet has become a new channel for sales and marketing. Online-shopping becomes the latest trend. During the Year Under Review, the Group successful launched its online business through its distributor network, and will enter into closer partnership with more reputable e-commerce platform in the future.

During the Year Under Review, the Group achieved remarkable return in its group bulk selling business. With this experience, the Group will diverse into other areas to increase its group bulk selling business, as well as collaborating with other large scale enterprises to develop new sales and marketing channels.

During the Year Under Review, the Group introduced organic milk powder from United States which is expected to commerce sales first in Hong Kong, while simultaneously be introduced in Guangdong. Furthermore, Flying Eagle Wood Look Medicated Oil and Fengbao Jiangfu Capsules were also granted authorization for sales in Hong Kong and both products will be launched in Hong Kong at the same time.

8. CONTINUATION OF INTERNAL CONTROL ENHANCEMENT

In order to achieve sustainable development, increase competitiveness, establish upstanding corporate culture, core values and long-term mission, and direct all staff to develop towards a common direction and goal, the Group will modify the existing organization structure in accordance with its five-years' development strategy philosophy; fully utilize resource so that strategic goals will be incorporated into the annual plans, laying foundation for the realization of five-years' development strategies.

The Group will continue to optimize operational and management systems, modify organization and personnel structure, improve sales and business model, enhance product category structure; fully utilize the Kingworld brand advantage by carrying out in-depth, systematic; strategically appropriate transformation and change, optimize workflow, promote standardized management practice and create an integrated operating system that combines sales and management forces, increase operation effectiveness, and hence achieve sustainable development.

At present, the Group has 41 branch offices situated throughout China, with a view to implementing the Group's various sales and marketing strategies, providing guidance to distributors or utilizing the distributors' sales force to generate sales. In order to improve the management capabilities and effectiveness of distributors so to meet with the market competitions of an information technology society and network economy, the SAP and GPS system will be introduced in 2012 in order to use information technology to improve work efficiency and management standard and thus further enhance the Group's overall competitiveness.

9. INTRODUCE TALENTS AND IMPROVE STAFF APPRAISAL SYSTEM

Human resources is the most important and decisive factor and resource in corporate development, it is also one of the fundamental elements of corporate competitiveness. Thus, the Group will focus on two areas according to its existing human resources situation; on one hand ,the Group will introduce more talents into the organization to establish a professional team, improving the Group's internal personnel reserves, training and promotion mechanism; while on the other hand, the Group will establish and improve the staff appraisal system, to create a management training and retaining mechanism, and to discover and cultivate a responsible and ethical management team.

10. SPEED UP ACQUISITION PROJECT

The Group has laid down acquisition strategy and plan and has started the process of selecting target business with an aim to complete acquisition project in the shortest time.

On behalf of the Board of the Company, I hereby wish to extend my gratitude for the hard work contributed by all staff and the Directors, as well as the support of the Company from all Shareholders.

Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 27 March 2012

Management Discussion and Analysis

INDUSTRY REVIEW

1. *Frequent price reductions of drugs dominating the development trend of the pharmaceutical industry*

The National Development and Reform Committee has implemented a total of 28 price reductions with respect to national priced drugs since 1998. Moreover, the bid-winning prices for the tender of essential drugs and general medical insurance decreased significantly in the past two years. Judging from the impact brought by drugs price reductions, those pharmaceutical enterprises that are mainly engaged in prescription drugs faced enormous pressure and challenges on their results.

The majority of the Group's products sold are over-the-counter drugs ("OTC drugs"), which were less affected by the drug price reductions. Compared with prescription drugs, the use of OTC drugs in medical treatment is safer and more developed, and the term for treatment with OTC drugs is generally longer. However, there is relatively little room for further reduction in the price of OTC drugs as their sales processes are relatively short with lower profit margin. Furthermore, the sales processes of OTC drugs are more transparent and in compliance with the requirements of industry policies.

2. *Rapid Expansion of OTC Market Attracts Market Attention*

As disclosed in Chinese OTC Industry Development Blue Book (2011), the market size of OTC drugs in China increased nearly five-fold to RMB120.95 billion in 2009 from RMB25.3 billion in 2000. The size of OTC drugs sales at hospitals in 2009 amounted to RMB48.71 billion whilst the retail sales size reached RMB72.24 billion, representing approximately 60% of the total market size of OTC drugs sales.

With the growing understanding and knowledge in healthcare and the changing attitudes towards well-being, consumers are more willing to take self-medication for self-diagnosed minor diseases and for prevention and rehabilitation of chronic diseases. It is expected in the market that the market size of OTC drugs sales will reach RMB192.3 billion (approximately US28.7 billion) in China by 2014. As such, the OTC drugs market in China has broad potentials and prospects. With the further expansion of the OTC drugs market, the Group's OTC drugs products will be directly benefitted.

3. *Frequent occurrence of drugs safety incidents in Mainland China resulting in consumers' preference for products imported from overseas*

During the recent years, a number of incidents on the safety of food and drugs occurred in Mainland China. Consumers have lost their faith in products produced in Mainland China, and turned to consumer products imported from overseas where more stringent market regulations apply, in particular those well-known products with long history are becoming the preferences of consumers. The Group sells products that match with this consumption trend, and introduces to the public quality and well-known health and well-being products from overseas which has brought huge potential of development to the Group.

Management Discussion and Analysis

4. Medicines to relieve cough and sputum symptoms has become indispensable consumer products due to the yearly incremental increase in the number of patients suffering from respiratory diseases

According to the statistics from the health authorities of China, there are more than 300 million people in China suffering from diseases in respiratory system each year. Of which more than 50 million people suffered from coughing. Moreover, the percentage of people suffering from coughing was higher in certain areas that are more economically developed. There were more than 190 million people living in the urban and rural area suffering from asthma, bronchitis, tuberculosis and coughing caused by flu, whilst approximately 16% of those having the above symptoms were suffering coughing. Particularly, the possibility of suffering from upper respiratory tract infection symptoms is increasing due to the increase in the number of cars in urban city, which directly causes severe dust haze in the air.

At present, there are more than 100 brands of medicines for relieving cough and sputum symptoms, more than 60% of which are produced from prescriptions with Chinese medicines that have absolute advantage in the market. Amongst the Chinese medicines for relieving cough and sputum symptoms, "cough syrup" is the most popular one, while the "Mi Lian Chuan Bei Pei Pa Koa" (蜜煉川貝枇杷膏) produced by Nim Jiom (京都念慈庵) remains the most popular brand, which maintains a leading position in the category of relieving cough and sputum symptoms.

BUSINESS REVIEW

1. *To further enhance the market share upon relatively faster growth in sales of products with competitive edge*

During the Year Under Review, the Group realigned its strategy for the wholesale customers, rationalized the distribution channels, minimized price reductions and expanded its coverage in the second and third tier cities. The sales of Nim Jiom Pei Pa Koa, our leading product, were increased. At the same time, the Group also tapped into the hospital market in Shanghai, Hangzhou, Ningbo, Xian, Nanchong and Nanjing. The branding and recognition of Nim Jiom Pei Pa Koa were thus enhanced through the marketing and promotional efforts devoted, which significantly improved our market penetration rate. As at 31 December 2011, the sales of Nim Jiom Pei Pa Koa (念慈庵枇杷膏) increased by 14.5% as compared with the same period in 2010 which was higher than the market average.

Taiko Seirogan (喇叭牌正露丸) is one of the popular products distributed by the Group, which achieved amicable growth during the Year Under Review. The Group obtained remarkable results in the sales of Taiko Seirogan through the integration of channels at Guangdong and Fujian, product sales advertisements and coverage on third party end users as well as the implementation of a series of promotional activities to enhance its brand name. During the Year Under

Review, a relatively rapid growth was recorded for the sales of Taiko Seirogan, amounting to RMB56,782,000 and representing an increase of 37.4% as compared with the same period in 2010.

Imada Red Flower Oil (依馬打紅花油) is another emerging star product actively launched by the Group into the market. This product was well received by consumers in certain regions as a result of its product quality, luscious raw materials, and good effectiveness in treatment. Moreover, the Group adopted effective sales strategies during the Year Under Review, and elevated the motivation of distributors at different levels. Apart from the customers' recognitions, this product has already become a well-known brand and recorded rapid growth within a short period of time after it was launched into the market. As at 31 December 2011, the increase in the sales of Imada Red Flower Oil was outstanding and amounted to RMB29,252,000, representing an increase of 163.5% as compared with the same period in 2010.

As to Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), which is another main stream product of the Group, the Group has been applying for the renewal for the import registration licence that was expired in December 2010. Furthermore, the manufacturer of such product conducted its upgrade of Good Manufacturing Practice ("GMP") since the middle of 2011. Hence, the sales of Flying Eagle Wood Lok Medicated Oil for 2011 were affected to a certain extent. With the approval obtained for the import registration licence and the GMP production facilities, it is believed that the sales of Flying Eagle Wood Lok Medicated Oil will soon recover and will gain further growth. In addition, the import of Kawai Liver Oil Drop (可愛的肝油丸), another product of the Group, was still temporarily suspended in 2011 due to the disastrous earthquake in Japan and China banning the import of foodstuff from 12 counties and cities in Japan. As the sales of liver oil drop only accounted for about 3.3% of the Group's sales, the effect of suspension on the sales of the Group was minimal.

2. *To lay a concrete foundation of the network upon expanding the distribution channels*

During the Year Under Review, the Group conducted effective realignment and further improvement to its distribution network according to the nature of different markets on the basis of the "Penetrating Into Markets with Lowest Coverage". Our performance in acting as an agent for renowned brands was recognized in the market, making us being considered as an renowned agent. The Group augmented the rationalization, development and administration of distributors at the second level through orderly architecture and deployment of channels, and expanded our coverage and market share for various products. At the same time, the Group consolidated its distribution network by increasing the number of display booths under the name of "Kingworld Health Family" (金活健康之家), enriching the product mix and creating a favourable spending environment. The close cooperation relationship with the distributors and the pharmaceutical retailers improved accordingly.

During the Year Under Review, the Group also began selling on the Internet platform through cooperation initiatives with distributors. The Group also explored a new channel, and tapped into particular state-owned enterprises in China, such as banking, taxation and public transportation groups as well as business and military units.

3. *To gear an effective driving force on sales with the continuous increase in the number of display booths*

The display booths under the name of "Kingworld Health Family" demonstrate the brand image of our products to the end-user consumers as well as a channel of interactive communication about the movements in the market. These booths have generated strong driving forces to sales. During the Year Under Review, the number of display booths at those end-user chain drug stores that have sales potential increased from 1,500 at the end of 2010 to approximately 3,000 to-date. At the same time, the Group had also established a number of flagship display booths under the name of "Kingworld Health Family" in selected cities in China. The promotion and marketing for the branded products under the Group were strengthened in order to further enhance the corporate and brand image of the Group.

4. *To consolidate the customer base from distributors and sub-distributors and establish a well-developed and stable channel for our products*

The competitive edge of the Group is an extensive and well-developed channel of distribution network, which is considerably unique in this industry. As at 31 December 2011, the Group had 243 primary distributor customers with strong competence, 420 sub-distributor customers and over 50,000 key retail stores. Most of our customers in China have their own large end-user distribution network.

In order to strengthen the end-user network, the Group is identifying acquisition targets among drug distributors that are in leading position in their respective regions. Such distributors are mainly located in the eastern and southern parts, central and western parts as well as in the coastal regions of China where consumers have higher spending power. The Group also maintains close cooperation with its distributors in formulating sales and marketing strategies and in carrying out promotional activities. This will enhance the recognition and market share of our products.

Management Discussion and Analysis

MANAGEMENT REVIEW

1. *To focus on sustainable future development and formulate strategic development plan*

During the Year Under Review, the Group launched its third phase of strategic planning, and employed renowned strategy experts in the domestic pharmaceutical industry to make a five-years' strategic development plan jointly with the Board and senior management of the Group. Through the implementation of the five-years' development plan, the Group believes that its businesses, personnel, management, networks and brands will reach new heights and achieve substantial growth.

2. *Segmentation and fine management of regional sales market*

During the Year Under Review, in order to strengthen the management of the sales team, implement various corporate sales policies, strengthen customer communication, and adjust the regional architecture of sales network, the Group further divided the original coverage of its three sales regions into four. In the meantime, the number of branch offices also increased from 34 in 2010 to 41 as at 31 December 2011. These endeavours enriched the maintenance, supervision and promotion of the end-user network.

3. *Headquarter office being included in the project of provision of affordable industrial premises*

The Nanshan District Government of Shenzhen City has launched a project to provide affordable industrial premises for outstanding and innovative enterprises. Innovation Building, being the first project of such plan, held its foundation-laying ceremony in 2011. The building will accommodate the headquarter offices of 10 enterprises, including the Group. The construction is estimated to be completed in 2013. The Group believes that relocation to the new office premise allows the Group to use its resources in a more effective manner, so as to reorganise the internal structure of the headquarter and enhance its corporate image and standard of management.

4. *The Kingworld national distribution center was accredited*

During the Year Under Review, the Group successfully developed the feasibility report of Kingworld national distribution center, and greatly enhanced the enforcement of the project. At present, the project has been approved by the relevant departments and the Group has signed an admission contract with the Qianhai authority of Shenzhen city. It is the belief of the Group that upon the completion of this project, the logistics and transportation services will be upgraded. The centre will play a more important role in the unitary distribution of the Group's products throughout China.

Management Discussion and Analysis

HONOR

During the Year Under Review, the Group has received the following honors:

- In January 2011, Kingworld Medicine Healthcare Limited obtained a wholesaler license of proprietary Chinese medicines in Hong Kong;
- In March 2011, Shenzhen Kingworld Medicine Co. Ltd. was reelected as Top 100 Import Enterprises of 2010 Chinese Medicines and Health Products;
- In March 2011, Shenzhen Kingworld Medicine Co. Ltd. was rated as AAA enterprise by China Health Care Association (there are 5 companies with such rating in total nationwide, and only one company in Guangdong Province);
- In July 2011, Kingworld Medicines Group Limited received Community Honor Award at the Hong Kong Community Chest Anniversary Award Ceremony;
- In August 2011, Shenzhen Kingworld Medicine Co. Ltd. was authorized as "the only designated health products" at the Boao Forum for Asia;
- In August 2011, Shenzhen Kingworld Medicine Co. Ltd. was appointed as an executive member of the GuangDong Health Care Industry Association;
- In August 2011, Zhao Lisheng, the Chairman of the Board, was selected as a Green Torch Bearer at the 2011 World University Games;
- In November 2011, Shenzhen Kingworld Medicine Co. Ltd. was named 2011 Outstanding Partner for Succhi Pharmaceutical Group;
- In December 2011, Shenzhen Kingworld Medicine Co. Ltd. was named "2011 Outstanding Businesses in Hong Kong" by Hong Kong Economic Digest Magazine;
- In December 2011, Shenzhen Kingworld Medicine Co. Ltd. was named Key Taxpaying Enterprise by Luohu District of Shenzhen City;

FINANCIAL REVIEW

1. *Turnover*

Turnover of the Group for the Year Under Review was approximately RMB685,562,000, representing an increase of approximately RMB47,516,000, or 7.4% compared to approximately RMB638,046,000 for the year ended 31 December 2010. The increase was mainly because of an increase in sales of Nin Jiom (京都念慈菴) product line, Taiko Seirogan (喇叭牌正露丸) product line and Imada Red Flower Oil (依馬打正紅花油) product line. The year-on-year growth for these three products were 14.5%, 37.4% and 163.5% respectively. This is due to reinforced promotion for these products, including the strategies to increase the sale of Nin Jiom Mi Lian Chuan Bei Pei Pa Koa (京都念慈菴蜜煉川貝枇杷膏) and Taiko Seirogan; and to increase the product display booth for Imada Red Flower Oil.

2. *Cost of sales*

For the Year Under Review, cost of sales for the Group amounted to approximately RMB524,730,000, increased by approximately RMB26,831,000 or 5.4% when compared to approximately RMB497,899,000 for the year ended 31 December 2010. The increase in cost of sales is consistent with the increase in turnover. Gross profit ratio increased from 22.0% for the year ended 31 December 2010 to 23.5% for the Year Under Review, which was primarily attributable to an increase in sale of products with a higher gross profit ratio (especially Taiko Seirogan and Imada Red Flower Oil.)

Management Discussion and Analysis

3. Other revenue

Other revenue mainly included rental income, commission income and interest income. For the Year Under Review, other revenues amounted to approximately RMB6,012,000, decreased by approximately RMB2,671,000 or 30.8% when compared to approximately RMB8,683,000 for the year ended 31 December 2010. This decrease was mainly due to the decrease in interest income of approximately RMB2,664,000 as a result of the decrease in pledged bank deposits and there was a government grant of RMB2,000,000 in last year 2010.

4. Other net income

Other net income is mainly comprised of net foreign exchange gain. For the Year Under Review, other net income amounted to approximately RMB11,257,000, increased by approximately RMB7,593,000 or 207.2% when compared to approximately RMB3,664,000 for the year ended 31 December 2010. This increase was mainly caused by an increase in net foreign exchange gain as a result of the appreciation of Renminbi.

5. Selling and distribution costs

For the Year Under Review, selling and distribution costs amounted to approximately RMB70,900,000, increased by approximately RMB6,039,000 or 9.3% when compared to approximately RMB64,861,000 for the year ended 31 December 2010. This increase was primarily attributable to an increase in advertising costs and salaries by RMB6,335,000 and RMB4,547,000 respectively. To maximize the impact from the recovery of Chinese economy from the global financial crisis, we have upgraded our sales and marketing team and launched more advertising, marketing and promotional activities during the Year Under Review.

6. Administrative expenses

For the Year Under Review, administrative expenses amounted to approximately RMB37,695,000, increased by approximately RMB12,222,000 or 48.0% when compared to approximately RMB25,473,000 for the year ended 31 December 2010. This increase was mainly due to an increase in rental expenses by approximately RMB1,263,000, an increase in administrative staff costs by approximately RMB1,914,000 and an increase in legal and professional fees by approximately RMB3,953,000 resulting from increased public company reporting costs and advisory services on legal and financial reporting.

7. Profit from operations

For the Year Under Review, profit from operations for the Group amounted to approximately RMB78,506,000, increased by approximately RMB12,132,000 or 18.3% when compared to approximately RMB66,374,000 for the year ended 31 December 2010. Increase in profit from operations was mainly due to an increase in turnover and gross profit for the Year Under Review.

8. Finance costs

For the Year Under Review, finance costs amounted to approximately RMB4,690,000, decreased by approximately RMB3,342,000 or 41.6% when compared to approximately RMB8,032,000 for the year ended 31 December 2010. The decrease was mainly due to the decrease in bank loan interest as the total bank loans decreased from approximately RMB197,846,000 as at 31 December 2010 to approximately RMB47,168,000 as at 31 December 2011.

9. *Profit before taxation*

For the Year Under Review, profit before taxation for the Group amounted to approximately RMB73,816,000, increased by approximately RMB15,492,000 or 26.6% when compared to approximately RMB58,324,000 for the year ended 31 December 2010. Increase in profit before taxation was mainly due to an increase in turnover and gross profit for the Year Under Review.

10. *Income tax expenses*

For the Year Under Review, income tax expenses for the Group amounted to approximately RMB22,785,000, increased by approximately RMB7,306,000 or 47.2% when compared to approximately RMB15,479,000 for the year ended 31 December 2010. This increase was mainly due to an increase in profit before taxation and a rise in the actual tax rate. The effective tax rate for the Year Under Review was 30.9% when compared to 26.5% for the year ended 31 December 2010.

11. *Profit for the year*

For the Year Under Review, profit attributable to equity holders of the Company amounted to approximately RMB51,031,000, increased by approximately RMB8,168,000 or 19.1% when compared to approximately RMB42,863,000 for the year ended 31 December 2010.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS

1. *Trade and other receivables*

Trade and bills receivables of the Group include credit sales that the Group's distributors should pay for the Group's products. Other receivables of the Group include prepayments, deposits and other receivables. Trade and other receivables of the Group as at 31 December 2011 amounted to RMB329,032,000, increased by RMB106,107,000 when compared to trade and other receivables as at 31 December 2010 amounted to RMB222,925,000. Increase in trade and other receivables was mainly due to an increase in credit sales with certain distributors that have a good cooperation relationship with the Group. As at 31 December 2011, trade receivables and bills receivables of the Group amounted to approximately RMB86,020,000 and RMB213,293,000 respectively, representing a decrease of RMB30,057,000 and an increase of RMB124,016,000 respectively when compared to trade receivables and bills receivables of the Group amounted to approximately RMB116,077,000 and RMB89,277,000 as at 31 December 2010 respectively. One of the reasons for the decrease in trade receivables was that the credit terms for Flying Eagle Wood Lok Medicated Oil was reduced from 12 months in 2010 to 3 months in 2011.

2. *Inventories*

As at 31 December 2011, inventories owned by the Group amounted to approximately RMB49,140,000, representing a deduction of RMB10,177,000 or 17.2% when compared to inventories amounted to RMB59,317,000 as at 31 December 2010. The main reason of deduction in inventories was that since the Group aimed at improving its cash flow management, it systematically reduced inventories turnover cycle from 43 days in 2010 to 34 days in 2011.

3. Properties, plants and equipment

Properties, plants and equipment owned by the Group include properties, leasehold improvements, furniture and equipment, motor vehicles and construction in progress. As at 31 December 2011, the book value of properties, plants and equipment owned by the Group amounted to approximately RMB8,943,000, showing an increase of RMB4,512,000 or 101.8% when compared to that of RMB4,431,000 as at 31 December 2010. Increase in properties, plants and equipment was mainly due to purchase of leasehold improvements, motor vehicles and construction in progress projects during the Year Under Review.

4. Trade and other payables

Trade and other payables of the Group mainly include trade and bill payables, prepayments from customers, other payables and accrued expenses. As at 31 December 2011, trade and other payables owned by the Group amounted to approximately RMB157,324,000, representing a reduction of RMB11,169,000 or 6.6% when compared to that of RMB168,493,000 as at 31 December 2010.Reduction of trade and other payables was mainly due to a reduction of trade payable which reduced from approximately RMB134,137,000 as at 31 December 2010 to approximately RMB120,901,000 as at 31 December 2011.

CASH FLOW

The Group's cash is primarily used to meet the demand of financing its working capital requirement, repaying interest and principal due on its indebtedness and providing funds for capital expenditures and growth of the Group's operations.

1. Net cash used in/generated from operating activities

The Group's cash inflow from operations primarily derives from receipts for the sale of the Group's products. For the Year Under Review, the Group's net cash outflow used in operating activities amounted to RMB53,326,000, while the net cash inflow generated from operating activities for the year ended 31 December 2010 was RMB13,416,000. The decrease was primarily due to the increase in trade and other receivables balance of approximately RMB107,258,000.

2. Net cash used in/generated from investing activities

The Group's net cash outflow used in investing activities amounted to RMB14,421,000 for the Year Under Review, while the net cash inflow generated from investing activities was RMB3,177,000 for the year ended 31 December 2010. The decrease is mainly due to the payment for the purchase of and deposit for fixed assets amounted to RMB6,623,000 and RMB10,000,000 for the Year Under Review respectively.

3. Net cash used in/generated from financing activities

The Group's net cash outflow used in financing activities amounted to RMB52,291,000 for the Year Under Review, while the net cash inflow generated from financing activities was RMB172,084,000 for the year ended 31 December 2010. The decrease was primarily due to proceeds from shares issued upon placing and public offering of RMB206,135,000 in 2010 which was not recurred in the Year Under Review.

CAPITAL STRUCTURE

1. Indebtedness

All the borrowings of the Group as at 31 December 2011 was RMB47,168,000, which will be due within one year. For the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

2. Gearing ratio

As at 31 December 2011, the Group's gearing ratio was 7.6% (31 December 2010: 26.4%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The decrease was mainly due to the decrease in bank borrowings.

3. Pledge of assets

As at 31 December 2011, the Group has pledged assets of bills receivables and bank deposits to the bank in the total amount of approximately RMB78,476,000 (31 December 2010: RMB147,673,000).

4. Capital expenditure

The capital expenditures of the Group primarily included purchases of plant and equipment, leasehold improvements and purchases of motor vehicles. The Group's capital expenditures amounted to RMB16,623,000 and RMB1,685,000 for the year ended 31 December 2011 and 2010 respectively.

5. Foreign exchange risk

The major business of the Group has used RMB and HK$ as the functional and operational currencies. The Group expects that RMB will maintain a stable development. The Group has no major risks in changes in other currency exchange.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various short-term bank borrowings. For the Year Under Review, the effective interest rate for (i) fixed rate loans was 6.7% - 12.9% and (ii) variable rate loans was 4.9%. Taking into account the cash flow generated from operations and the bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2011, the Group had cash and cash equivalents of RMB141,041,000 mainly generated from operations of the Group and funds raised from the listing of the shares of the Company in November 2010.

Management Discussion and Analysis

FUTURE OUTLOOK

As China's macro-economy continued to perform well, new medical reform gradually took shape, and the "Twelve Five-Year Plan" was further implemented; the pharmaceuticals industry in China offered immense marketing development opportunities. The Group has formed a special project team with strategic consulting experts in the industry who, through research and analysis on internal and external factors and future consumer trends, devised the Group's five-years' development strategy for the next five years. Following this strategy, the Group will take full benefit of its branding and network advantages; fully exploiting the opportunities brought on by the industry's development and the Group's healthy development combined. The Group will adopt the following future development strategies:

BUSINESS STRATEGY

1. *Active market development, continue to increase market share of key products*

China is a vast country, with differing levels of economic development. Although the Group's Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴川貝枇杷膏) remained the most popular brand of our cough relieving product category, market penetration in some of the second and third tier cities were still relatively low, and thus still have room for further development. In the meantime, the Group will devote efforts to expand sales from the development of the hospital market in Shanghai, Hangzhou, Ningbo, Xi'an, Nanchang and Nanjing as well as the grooming of emerging markets in consumption.

Although two of the Group's mainstream products such as Taiko Seirogan and Imada Red Flower Oil achieved faster sales growth and successfully completed their sales target in 2011, market share of both products were still limited. Therefore, in addition of using established sales distribution channels to increase sales, the Group will continue to develop business with large enterprises and expand mass buying business in order to increase product sales. At the same time, the Group plans to formulate strategies to explore untapped markets and markets with low sales by adopting new product combinations. These strategies will be beneficial for the continuing increase of the Group's market share.

2. *Expand the key product combination to form multi-support situation*

The Group continued to expand the market share of the Heart Tonic Kyushin Pills by increasing the numbers of franchises of the Kyushin Shops, as well as utilizing the network of nursing homes, clinics and government agency offices to develop a new client base for the Kyushin Pills, hence establishing the Kyushin Pills as another mainstream product for the Group.

On the other hand, the Group will continue to liaise with relevant government departments, and with the support of manufacturers, the Group will strive to obtain government approval to import the Kawai Liver Oil Drop so to speed up the application for import registration license. As the same time, the Group will also accelerate to obtain GMP inspection approval of Flying Eagle Wood Look Medicated Oil. It is believed that the reinstated production and sales of these two mainstream products would provide the Group with marked growth.

3. *Implement brand management of product line in order to enrich product portfolio*

The Group has always sought to expand its product lines by introducing products in line with corresponding areas of medical treatment. With regard to the Nin Jiom family of products, in addition to Nin Jiom Chuan Bei Pei Pa Koa (京都念慈菴川貝枇杷膏) and Nin Jiom Chuan Bei Pei Pa Cadies (京都念慈菴川貝枇杷糖), the Group has introduced a new product — Nin Jiom Chuan Bei Lingzhi Ginseng Koa (京都念慈菴靈芝洋蔘膏). Whereas for the influenza treatment brands, in addition to Gan Mao Qing Capsule, a new treatment for cold and influenza - Puji Anti-flu Granules (普濟抗感顆粒), will be introduced to the market in future, enhancing the variety and extensiveness of the Group's products.

4. *With the successful launch of the new Disney Band-Aid products, further enriching the patch product lines*

The Disney-franchised "Disney's Gold 100 Band-Aid" product line was officially launched during the Year Under Review. In order to ensure the marketing strategy of the product is effective and targeted, the Group created a project team with professional strategic companies especially for this product, in order to determine the creative directions of its strategy and develop new sales channel. The Group also planned to utilize the BOAO Forum for Asia as a platform to boost the Group's corporate image as well as product reputation, thus promoting the sales of its products. Moreover, the Group will continue to use its best endeavor on the preliminary research and planning work of the "Disney's Gold 100 Fever Patch" products.

5. *Forming Promotion Strategy for product mix with various retail chains, active involvement of "third party end-user" channels*

In accordance with the Outline for the Twelveth Five-Year Plan of the Development of Pharmaceuticals Industry with Distribution of Pharmaceuticals Covering Nationwide as published by the Ministry of Commerce of China, the State will support local influential retail chain terminal to increase chain drug stores distribution concentration. Thus, future chain stores will keep increasing market share of the OTC retail market, with the trend particularly more apparent in developed areas. At the same time, state-supported public policies on the rural medical market increased the medical insurance premium level for rural residents (increased from RMB80/person to RMB360/person), which brings vast opportunities that emerged from the rural retail market.

In order to seize the golden opportunities offered by these policies, the Group is concentrating its product portfolio resources on regional niche chains, with an aim to increase the Group's collective bargaining power with the chains by such reallocation of resources, thereby maximise sales and have more favourable commerical terms.

Furthermore, the Group will fully utilize the resources provided by national policies by utilizing policy-led support together with the Group's dealership development, in order to enter the era of rural medical cooperation and rural retail distribution, so to achieve a highlight in our sales growth.

6. *Increase the quality of the "Kingworld Health Family" display booths, continue to expand existing terminal network*

The distribution network plays an essential role in the distribution of pharmaceuticals and healthcare products. The "Kingworld Health Family" display booths have always been a platform for the Group to showcase its products, raise brand recognition, and maintain customer communication while at the same time identifying customer demands; "Kingworld Health Family" display booths are the embodiment of the Group's branding.

In order to promote and boost its branding reputation, the Group has planed to increase the numbers of display booths from 3,000 by 1,000 to 4,000 booths in 2012. "Kingworld Health Family" promotes brand, trust, reliability, quality and health. The Group collaborated with world renowned advertising agency on branding strategy. Through the use of its product and the "Kingworld Health Family" display booths to publicize the Group's reputation, and the assimilation of the advertising campaign with the public, the Group has built closer connection with the customers and hence enhanced their buying desire.

7. *Expand new sales channel and market, develop e-commerce sales model*

The Group achieved remarkable return in its group buying business in 2011. With this experience, the Group will diverse to other areas to increase its group buying business, as well as collaborating with other large enterprises to develop new sales and marketing channels.

In recent years, e-commerce has become more popular, with the number of online-consumers reaching over 400 million; the Internet has become a new channel for sales and marketing, and online-shopping is the latest trend. Through its distributor network, the Group successful launched its online business during the Year Under Review. The Group plans to enter into more in-depth partnership with well-known e-commerce platform in the future.

8. *Full-scale launch of new product in Hong Kong*

During the Year Under Review, the Group introduced organic dried milk from the United States and plan to be the first to launch sales in Hong Kong, while simultaneously introducing the product in Guangdong. Furthermore, Flying Eagle Wood Look Medicated Oil, Puji Anti-flu Granules and Fengbao Jiangfu Capsule were also authorised for sales in Hong Kong. These three products will be launched in Hong Kong simultaneously. As various products of the Group have gradually launched into the Greater China market, this will greatly increase the Group's product market share and reinforce its leading industry position.

9. *Set acquisition target development plan, implementing large-scale acquisition strategy*

Implementing substantial acquisition strategy is the Group's primary agenda. The Group has developed basic acquisition guidelines and strategy in order to carry out extensive and detailed selection of the multitudes of second-rated pharmaceutical distributors in Mainland China, as well as establishing acquisition target database and acquisition strategy development plan. The Group has commenced negotiations for mergers and acquisitions with distribution enterprises of high quality in full force. Such enterprises are equipped with good synergy effect, extensive end-user network and profound profitability. We will speed up the progress at suitable timing and pursue for substantial development in mergers and acquisitions.

INTEGRATED MANAGEMENT

1. *Modify corporate structure and resource allocation in accordance with business development needs*

The Group will guide all employees towards a common direction and goal in order to achieve its sustainable development, increase competitiveness, establish upstanding corporate culture, core values and the Group's long-term goals. The Group will modify the existing corporate structure according to mid-term development strategic principles; fully exploit resources so that strategic goals can be incorporated into the annual plans, and lay foundation for the realization of five-years' development strategies.

2. *Optimize workflow to form systematic operating system and competitiveness*

Leveraging on the advantages currently enjoyed from the brand of Kingworld, the Group will optimize its operation and management system as well as staff structure. Sales and business models will be optimized so as to improve the product portfolio. The Group will conduct in-depth reform and innovation on its system that can adapt to its strategic development. Standardization in its management practices will be achieved, which will form an integrative operational capacity in sales and management. Operation efficiency will thus be enhanced and the sustainable development of the Group can be realized.

3. *Modify personnel structure to introduce professional talent of quality*

Human resources is the most critical and decisive factor in corporate development. It is also one of the fundamental elements of corporate competitiveness. Thus, based on its human resources situation at present, the Group will introduce more talents into the organization to establish a professional team. This will improve the Group's internal human reserves, training and promotion mechanism. On the other hand, the Group will create a management training and retaining mechanism through establishing and perfecting the staff appreisal system, in order to discover and cultivate a responsible and ethical management.

4. *Utilize information technology to increase management efficiency*

As at 31 December 2011, the Group currently has 41 branch offices throughout China that implement various sales and marketing strategies, provides guidance to distributors or utilizes the distributors' sales force to generate sales. In order to improve the management capabilities and effectiveness of distributors, the SAP and GPS systems will be implemented in 2012 to adapt to the competitive marketing environment of an information technological society and network economics; the use of IT technology to improve efficiency and management standard will further enhance the Group's overall competitiveness.

5. *Continue to establish a nationwide dispatch centre by the Group*

The Group has signed a letter of intent with the Shenzhen Qianhai Authority regarding the establishment of a Kingworld nationwide distribution centre. The Group will continue to further communicate and coordinate with relevant authorities in 2012 to procure speedy approval of the construction of the nationwide distribution centre in order to satisfy future demand for centralized distribution of pharmaceuticals in China.

HUMAN RESOURCES AND TRAINING

As at 31 December 2011, the Group had a total of 396 employees, of which 81 worked at the Group's headquarters in Shenzhen, and 315 stationed in 34 zones, mainly responsible for sales and marketing. Total staff cost for the Year Under Review amounted to approximately RMB25,388,000 (2010 : RMB25,408,000). The Group releases an annual sales guideline on a yearly basis, setting out the annual sales target and formulating quarterly sales strategies, so as to provide sales and marketing guidelines for all representative offices and their staff to observe. The Group has a management team with extensive industry experience (including the Sales Director and Product Manager). They are responsible for coordinating front-line sales and marketing teams to meet the annual sales target.

During the Year Under Review, the Group adopted a human-oriented management concept to have its staff closely involved in the management and development of the Group. The Group has implemented a strict selection process for hiring its employees and a number of initiatives to enhance the productivity of its employees. The Group conducts periodic performance review on its employees, and revises their salaries and bonuses accordingly. In addition, the Group has arranged training programs for employees in various positions.

DIVIDENDS

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend for the Year Under Review of HK4.04 cents per share to Shareholders whose names appear on the register of members of the Company on Thursday, 24 May 2012, amounting to approximately HK$25,149,000 subject to the approval from the Company's forthcoming annual general meeting to be held on Wednesday, 16 May 2012. Total dividend payout ratio is 40% of the profit for the year or 44% of the distributable profit of the Company, after deducting non-distributable statutory reserves for the year ended 31 December 2011 of RMB4,863,000. The above-mentioned final dividend is expected to be paid on or before Friday, 15 June 2012.

Directors' and Senior Management's Biographies

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhao Li Sheng (趙利生), aged 53, was appointed as an executive Director of the Company on 25 September 2008. He is the co-founder of the Group and the chairman of the Company. He is primarily responsible for the Group's overall strategic planning and business management. He has over 16 years of experience in business management and development in the distribution of pharmaceutical and healthcare products. He was also appointed as the chairman of Shenzhen Kingworld Industry Company Limited ("SZ Industry") in 1994 and the general manager and chairman of Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld") in 1996. Mr. Zhao was qualified as a senior business manager by the Business Management Qualification Accreditation Committee of Hubei Province in December 2002. Mr. Zhao has been a member of the standing committee (常委) of the 4th and 5th Shenzhen Committee of the Chinese People's Political Consultative Conference (深圳市政協第四及第五屆委員會). Mr. Zhao was the vice-president of The Fifth Council of the Shenzhen General Chamber of Commerce (深圳市總商會(工商聯）第五屆理事會) in 2005. In 2008, he was the honorary director (名譽會董) of the Federation of Hong Kong Chiu Chow Community Organizations, the council member (理事) of the Third Session of China Overseas Friendship Association (第三屆中華海外聯誼會) and in 2009, the standing council member (常務理事) of the Third China Economic and Social Council (第三屆中國經濟社會理事會). Currently he is the vice president (副會長) of the Shenzhen Healthcare Association (深圳市保健協會) and the Fifth Council of the Pharmaceutical Profession Association (深圳市醫藥行業協會第五屆理事會). He is also the chairman of the Youth Chawnese Committee of Shenzhen (深圳潮人海外經濟促進會青年委員會). He is the spouse of Ms. Chan Lok San.

Ms. Chan Lok San (陳樂燊), aged 48, was appointed as an executive Director of the Company on 25 September 2008. She is the co-founder of the Group. She is primarily responsible for the Group's financial planning and human resources management. She has over 16 years of experience in the pharmaceutical industry as well as over 8 years of experience in property management. Ms. Chan has been working for SZ Industry since 1994 and SZ Kingworld since 1996. She has been the vice chairlady of SZ Kingworld and SZ Industry since 2005 and 2006 respectively, and the vice chairlady of Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited since 2005 and the legal representative of Shenzhen Kingworld Department Store Property Management Company Limited and Shenzhen King Gibson Golf Company Limited. She received a master's degree in business administration of senior management from Sun Yat-Sen University in 2010. In 2011, she was appointed as a committee of Shenzhen Golf Society and a vice-chairlady of Shenzhen Clothing Society. She was also a member of the Global Foundation of Distinguished Chinese (世界傑出華人基金會) in 2003. Currently, she is the director (理事) of Sun Yat-Sen University Entrepreneur Alumni Association (Third Session) (第三屆中山大學企業家校友聯合會). She is the spouse of Mr. Zhao.

Mr. Zhou Xuhua (周旭華), aged 45, was appointed as an executive Director of the Company on 3 August 2009. He has been the general manager of SZ Kingworld since 2009. He is primarily responsible for the business development and operations of SZ Kingworld. He was the business manager of SZ Industry between 1994 and 1995 and was the regional manager and deputy general manager of SZ Kingworld after he joined SZ Kingworld in 1996. He has 14 years of experience in the pharmaceutical industry. Mr. Zhou has worked as a clerk and was later promoted to become a supervisor of Shenzhen International Arcade between 1987 and 1993. He completed his education at Shenzhen Finance School (深圳市財經學校) in 1987.

Mr. Lin Yusheng (林玉生), aged 46, was appointed as an executive Director of the Company on 3 August 2009. He has been the deputy general manager of SZ Kingworld since June 2006. He is primarily responsible for the operations and capital management of the Group. He has approximately 11 years of experience in the pharmaceutical industry. In 1989, he obtained a bachelor's degree in philosophy at Yanan University (延安大學). He received a master's degree in business administration at the Hong Kong Polytechnic University in 2006. From 1999 to 2004, he worked in Xi'an Lijun Pharmaceutical Company Limited, which is principally engaged in the manufacturing and sale of pharmaceutical products in the PRC, and a wholly owned subsidiary of Lijun International Pharmaceutical (Holding) Company Limited (stock code: 2005), a company listed on the Stock Exchange which, together with its subsidiaries, are engaged in the research, development, manufacturing and selling of finished medicines and bulk pharmaceutical products to hospitals and distributors. Mr. Lin was appointed as a vice president of Lijun International Pharmaceutical (Holding) Company Limited from 2004 to 2006. From 2005 to 2006, he was also appointed as the chairman of Xi'an Lijun Fangyuan Pharmaceutical Company Limited (西安利君方圓製藥有限責任公司). Mr. Lin was appointed as an independent non-executive director of China Housing and Land Development Inc. (中國房屋土地開發集團) which is listed on Nasdaq, (stock code: CHLN) in October 2011.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Jidong (段繼東), aged 46, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has approximately 21 years of experience in the pharmaceutical industry. He received a bachelor degree in medicine at The Shanghai Railway Medical Institute (上海鐵道醫學院) in 1989. He was a surgeon with the Central Hospital of Shenyang Railway Bureau (原瀋陽鐵路局中心醫院) from 1989 to 1994 and worked in the Beijing Mundipharma Pharmaceutical Company Limited (北京萌蒂製藥有限公司) from 1994 to 1998. He served as the chairman and legal representative of Kunming Baker Norton Pharmaceutical Company Limited from December 2002 to April 2006, a director of Holley Pharmaceutical (Chongqing) Co., Ltd. (重慶華立藥業股份有限公司), stock code: 000607, a company listed on the Shenzhen Stock Exchange, from 2005 to 2006, and a director of Wuhan Jianmin Pharmaceutical Groups Corp, Ltd. (武漢健民藥業集團股份有限公司, stock code: 600976), a company listed on the Shanghai Stock Exchange, from 2004 to 2006. He was a chief executive officer from 2002 to 2005, and a director from 2004 to 2006, of Kunming Pharmaceutical Group Corporation, Ltd. (昆明製藥集團股份有限公司, stock code: 600422), a company listed on the Shanghai Stock Exchange. He is currently an independent non-executive director of Zhejiang CONBA Pharmaceutical Company Limited (浙江康恩貝製藥股份有限公司, stock code: 600572), a company listed on the Shanghai Stock Exchange and the chairman of Beijing Strategy & Action Enterprise Management Consulting Company Limited (北京時代方略企業理諮詢有限公司).

Mr. Zhang Jianqi (張建琦), aged 55, was appointed as an independent non-executive Director of the Company on 5 November 2010. He completed a course in industrial enterprise management at Xi'an Foundation University (西安基礎大學), which merged with Xi'an University of Finance and Economics (西安財經學院) in 1981. Mr. Zhang obtained a master degree in engineering at Xi'an Jiaotong University (西安交通大學) in 1993. He received a PhD in management at the Xi'an Jiaotong University in 1998. He has over 23 years of experience in tertiary education. He was qualified as a lecturer in Corporate Management in 1987. Since 1999, he has been working as a professor at Lingnan (University) College, Sun Yat-Sen University and later as a PhD tutor at the same University in 2003. He is also a committee member (委員) of the Guangdong Committee of the Chinese People's Political Consultative Conference (政協廣東省委員會). Mr. Zhang has also been the independent non-executive director of Foshan Nationstar Optoelectronics Company Limited (佛山市國星光股份有限公司, stock code: 002449), a company listed on the Shenzhen Stock Exchange, and Guangdong Alpha Animation and Culture Company Limited (廣東奧飛動漫文化股份有限公司, stock code: 002292), a company listed on the Shenzhen Stock Exchange, since 2008. In October 2009, he was appointed as the independent non-executive director of Zhuguang Holdings Group Company Limited (formerly known as Nam Fong International Holdings Limited, stock code: 01176), a company listed on the Stock Exchange.

Directors' and Senior Management's Biographies

Mr. Wong Cheuk Lam (黃焯琳), aged 43, was appointed as an independent non-executive Director of the Company on 5 November 2010. He has over 16 years of experience in accounting and finance fields. Mr. Wong obtained a bachelor's degree in arts from the University of Hong Kong in 1992 and a master's degree in business from Victoria University of Technology, Australia in 1997. He is a member of the Hong Kong Institute of Certified Public Accountants and is a member of CPA Australia. From 1994 to 2003, he worked in accounting positions for Sakura Finance Asia Limited, BOCI Securities Limited and Going Accounting Services Company. Since 2003, he has been working as a company secretary at Zhengzhou China Resources Gas Company Limited (鄭州華潤燃氣股份有限公司), a company previously named Zhengzhou Gas Company Limited and was listed on the Stock Exchange and has been working as a chief financial officer since July 2005 and was a financial controller during the period from October 2007 to July 2010 of the same company.

SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 51, was appointed as the financial controller and company secretary of the Company on 25 June 2009. He is responsible for the management of the Group's financial matters. He has over 26 years of experience in auditing and accounting fields. He served as a financial controller of Fairwood Fast Food Limited from 1995 to 1998. He also worked as a corporate finance director of Texwood Limited from 2000 to 2005 and a business director of Texwood Group from 2006 to 2008 respectively. He received a bachelor's degree in economics from Macquarie University Australia in 1986. In 2005, he received a master's degree in science (accountancy) from the Hong Kong Polytechnic University. He is an associate member of the Institute of Chartered Accountants in Australia and an associate member of the Hong Kong, Institute of Certified Public Accountants.

Ms. Fang Danna (方丹娜), aged 46, has been the financial manager of SZ Kingworld since 1995. She is primarily responsible for the management of SZ Kingworld's financial policies. She has approximately 21 years of experience in the accounting industry. She worked for the accounting department of Shenzhen Xinwei Electronics Company Limited (深圳新偉電子有限公司) in 1989 before she joined SZ Industry as a financial manager in 1995. She completed a course in accounting from Wuhan University (武漢大學) in 1991.

Mr. Liu Yibing (劉亦兵), aged 53, is the administration controller of SZ Kingworld. He is primarily responsible for the implementation of the Group's administrative policies. He has approximately 9 years of experience in the administrative field. He worked in the cadre training center at the human resources department of Foxconn International Group between 1995 and 1998. He received a bachelor's degree in Chinese literature from Hunan Normal University (湖南師範大學) in 1982. He joined SZ Kingworld in 2001.

Directors' and Senior Management's Biographies

Mr. Ceng Yun (曾澋), aged 41, is the sales director (commerce) of SZ Kingworld. He is primarily responsible for the overall sales and customer management in Sales Region 3. He has approximately 13 years of experience as a sales manager in the pharmaceutical industry. He completed a master's degree in industrial economics from Nanchang University (南昌大學) in 2001. He joined SZ Kingworld in 1996.

Mr. Yang Yongtao (楊永濤), aged 39, is the promotions director of SZ Kingworld. He is primarily responsible for the implementation of the Group's overall promotional strategies and management of the retail outlets. He has approximately 10 years of experience in the sales and promotion areas. He worked as a promotion officer in the sales and marketing department of TCL Communication Company Limited in 2000 and as a key account supervisor in the marketing & sales center in Raystar Cosmetics (Shenzhen) Company Limited in 2001. He completed a course in facilities engineering and sales management with Changchun University of Science and Technology (formerly known as Changchun Institute of Optics and Fine Mechanic (長春光學精密機械學院) in 1994 and later in economics management with Party School of the Central Committee of the Communist Party of China (中共中央黨校函授學院) in 1999. He joined SZ Kingworld in 2003. Mr. Yang currently is studying a MBA course in Hong Kong Polytechnic University.

Ms. Liang Caiyun (梁彩雲), aged 43, is the operations and customer services manager of SZ Kingworld. She is primarily responsible for the implementation of SZ Kingworld's overall customer services strategies including but not limited to the delivery of the products and the review of purchase agreements. She has over 21 years of experience in the sales and strategic planning fields. Before joining SZ Kingworld in 1999, she worked in the Aviation Industry Corporation of China ZhongHang Electronic Measuring Instruments Co. Ltd. (中國航空工業總公司中航電測儀器股份有限公司) in 1988 and later as a planning and statistics officer of Chiaphua Appliance (Shenzhen) Company Limited in 1997. She completed her tertiary education in the area of industrial enterprises management with 012 Base Vocational School (012 基地職工學院) in 1988. She received the qualification certificate of specialty and technology for the intermediate level in statistics from the National Bureau of Statistics of China (國家統計局) in 1996.

Ms. Zhang Dan (張丹), aged 47, is the marketing director of SZ Kingworld. She is primarily responsible for the formulation and implementation of SZ Kingworld's overall marketing strategies for the products the Group distributes, especially Nin Jiom Pei Pa Koa, Taiko Seirogan, Imada Red Flower Oil and Flying Eagle Wood Lok Medicated Oil. She has approximately 12 years of experience in the sales and marketing areas. She received a bachelor's degree in medical treatment from Yunyang Medical College of Tongji Medical University (同濟醫科大學鄖陽醫學院) in 1986. She was a lecturer at the Hubei Province Wuhan Health School between 1986 and 1995. She joined SZ Kingworld in 1996.

Directors' and Senior Management's Biographies

Ms. Tian Yongli (田永莉), aged 49, is the audit and control manager of SZ Kingworld. She is primarily responsible for the formulation, implementation and review of SZ Kingworld's accounting policies and internal control. She has approximately 18 years of experience in the auditing and accounting fields. She worked as an accounting officer for Electronic Industry Bureau of Wuhan City (武漢市電子工業局) in 1992. She received the junior accountant qualification from Finance Department of the PRC (中華人民共和國財政部) in 1999. She received a professional diploma in industrial enterprises' operation and management from Wu Han Radio and TV University (武漢市廣播電視大學) in 1986. She joined SZ Kingworld in 2005.

Mr. Huang Ruozhong (黃若忠), aged 49, is the corporate finance manager of SZ Kingworld and is responsible for managing the matters relating to the Listing. He has 16 years experience in handling securities and finance related matters. He worked in the securities department of the Shantou branch of the Bank of Communications Co. Ltd. from 1992 to 1999. He worked in the securities trading department of the Shantou Trust and Investment Company from 1999 to 2002, and worked for the Deheng Securities Company Limited (德恒證券有限公司) from 2002 to 2003. Since 2004, he has been the executive directors of the Twelve Subsidiaries and since 2006, the director of Zhuhai Jinming. In 2001, he was presented with the qualification of handling securities business by the Securities Association of China (中國證券協會). He graduated from the Chinese People's Liberation Army Air Force Engineering University (中國人民解放軍空軍工程大學) and Chinese People's Liberation Army Guilin Air Force Academy (中國人民解放軍桂林空軍學院) in 1985 and 1989 respectively. He joined SZ Kingworld in 2003.

COMPANY SECRETARY

Mr. Chan Hon Wan (陳漢雲) is the company secretary of the Company. He is also the financial controller of the Company. His biographical details are set out under the paragraph with the heading "Senior Management" above.

Corporate Governance Report

The Group recognizes the value and importance of high corporate governance standards in the enhancement of corporate performance and accountability.

While the Board strives to maintain a high level of corporate governance, it works hard to create value and achieve maximum return for its Shareholders. The Board will continue to conduct review with reference to local and international standards and improve the quality of corporate governance practices.

The Board passed a resolution on 5 November 2010 for the adoption of all the applicable code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. During the Year Under Review, the Group had complied with such code provisions, save for the deviations from Code Provision A.2.1.

According to Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Zhao Li Sheng is the Chairman of the Board and chief executive officer. The Board is in the opinion that letting Mr. Zhao to carry out both roles can bring about strong and consistent leadership for the Group, and can be more effective in planning and implementing long-term business strategies. The Board also considers that since members of the Board include competent and independent non-executive Directors, this structure will not impair the balance of power and authority between the Board and its management in the business of the Group. The Board is in the opinion that the structure described above will be beneficial to the Company and its business.

MODEL CODE FOR SECURITIES TRANSCATIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his/her compliance with the Model Code during the Year Under Review. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of unpublished price-sensitive information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the Year Under Review.

BOARD OF DIRECTORS

The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. The Board is responsible for providing guidance for senior management and maintaining effective supervision over senior management whereas senior management is responsible for the implementation of the policies resolved. In general, the responsibilities of the Board include formulating operation plans and investment proposals of the Company, preparing the proposed and final annual budgets of the Company, assessing the performance of the Company and overseeing the work of senior management.

Corporate Governance Report

The Board comprises a total of seven Directors, being four executive Directors and three independent non-executive Directors ("Independent Non-executive Directors"). These Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. Biographical details of and the relationship between the Directors are set out in the section headed "Directors' And Senior Management's Biographies" of this annual report.

All members of the Board fully understand their collective and individual responsibility for the Company's Shareholders, and will try their best to carry out their duties to make contributions to the Group's results.

The Company has appointed three Independent Non-executive Directors in compliance with the Listing Rules, with at least one Independent Non-Executive Director possessing the appropriate professional qualifications, or accounting or related financial management expertise.

Pursuant to the Articles of Association of the Company, one third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Zhou Xuhua, Mr. Duan Jidong and Mr. Zhang Jianqi shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

BOARD COMMITTEES

The Board has formed three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Committees have been formed with specific written terms of reference in compliance with Appendix 14 to the Listing Rules which deal with their respective authorities and duties.

Members, duties and responsibilities of the committees are as follows:

AUDIT COMMITTEE

The Company established an Audit Committee ("Audit Committee") on 5 November 2010 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianqi and Mr. Wong Cheuk Lam. Mr. Wong has been appointed as the chairman of the Audit Committee.

The Audit Committee has, together with the management of the Company and external independent auditors, reviewed the consolidated financial statements, accounting principles and practices adopted for the Group for the year of 2011, and agreed with the accounting treatment adopted by the Company.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee ("Remuneration Committee") on 5 November 2010 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are (among other things) to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management and to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management. The Remuneration Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianqi and Mr. Wong Cheuk Lam. Mr. Zhang Jianqi has been appointed as the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The Company established a Nomination Committee ("Nomination Committee") on 5 November 2010 with written terms of reference in compliance with the CG Code. The Nomination Committee is mainly responsible for making recommendations to the Board on appointment of Directors and succession planning for Directors. The Nomination Committee has three members, namely Mr. Duan Jidong, Mr. Zhang Jianqi and Mr. Wong Cheuk Lam. Mr. Duan has been appointed as the chairman of the Nomination Committee.

For the year ended 31 December 2011, the Group had no plans on the appointment of Director and Board succession. Therefore, no Nomination Committee meeting was held.

BOARD MEETINGS AND INDIVIDUAL ATTENDANCE

It is proposed to hold Board meetings at least four times a year regularly. Notice is given to Directors at least fourteen days before a regular Board meeting. Directors will be given reasonable and practicable notification under relevant circumstance for any special Board meeting called.

Before each Board meeting, the Directors are provided with a detailed agenda and sufficient relevant information, so as to enable the Directors to make appropriate decisions in relation to the matters to be discussed therein. All Directors are given an opportunity to include matters of their concern in the agenda of the Board meeting. If any Director or any of his/her associate has material interests in any resolution of the Board meeting, such Director much abstain from voting and should not be counted in the quorum of the meeting.

All Directors are free to access all the corporate information for the purpose of discharging their duties and responsibilities as directors. The Directors may seek independent professional advice in appropriate circumstances at the Company's expenses. In addition, all Directors have unrestricted access to the senior management of the Company.

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2011 are as follows:

Meetings held/attended	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Zhao Li Sheng *(Chairman)*	4/4	—	—	—
Ms. Chan Lok San	4/4	—	—	—
Mr. Zhou Xuhua	4/4	—	—	—
Mr. Lin Yusheng	4/4	—	—	—
Independent Non-executive Directors				
Mr. Duan Jidong	4/4	2/2	1/1	—
Mr. Zhang Jianqi	4/4	2/2	1/1	—
Mr. Wong Cheuk Lam	4/4	2/2	1/1	—

Note :

For the year ended 31 December 2011, the Group had no plans on the appointment of Director and Board succession. Therefore, no Nomination Committee meeting was held.

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Company's listing date (i.e. 25 November 2010, the "Listing Date") and may be terminated by not less than three months' prior notice in writing served by either party on the other.

The annual basic salary payable to each of the executive Directors is as follows:

Mr. Zhao Li Sheng	HK$1,200,000
Ms. Chan Lok San	HK$1,000,000
Mr. Zhou Xuhua	HK$1,000,000
Mr. Lin Yusheng	RMB600,000

Under their respective service contracts, each of the executive Directors is entitled to a discretionary year-end bonus of an amount to be determined by the Board and approved by the Remuneration Committee.

Each of the executive Directors will also be entitled to reimbursement of reasonable traveling, hotel, entertainment and other expenses properly incurred in the performance of his or her duties under the relevant service contract.

Independent Non-executive Directors

Each of the Independent Non-executive Directors has signed a letter of appointment with the Company for a term of three years commencing on the Listing Date and may be terminated by giving three months' notice in writing thereof by either party to the other.

The annual fees payable to each of the Independent Non-executive Directors are as follows:

Mr. Zhang Jianqi	HK$150,000
Mr. Duan Jidong	HK$150,000
Mr. Wong Cheuk Lam	HK$150,000

Each of the Independent Non-executive Directors will also be entitled to reimbursement of traveling expenses properly incurred in the performance of his/her duties under the relevant appointment letter.

Save as disclosed above, none of the Directors has entered or is proposed to enter into any service agreements with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

The Directors are responsible for the preparation of the Financial Statements of the Group in accordance with the relevant laws and disclosure stipulations of the Listing Rules and ensuring that these statements give a true and fair view of the state of affairs of the Group, its results and cash flows for that period. The responsibilities of the external auditors are to express an independent opinion on the Financial Statements prepared by the Directors based on their audit and to report their opinion solely to all the Shareholders, and for no other purpose.

INTERNAL CONTROL AND INTERNAL COMPLIANCE GUIDELINES

The Board has to be fully responsible for the stability and effectiveness of the systems of internal control and risk management of the Group. Such systems were set up by the Group to fulfill specific needs of the Group and the risks that its management faces. The Group has set up rigorous procedures to avoid unauthorized use or disposal of the Group's assets, ensure proper maintenance of accounting records, and provide reliable financial information for internal and external uses.

The Board has appointed external consultants to conduct a review on the internal control system, work flow and management system of the Group. The result was satisfactory. Such systems and work flow are compliant to the internal compliance guidelines of the Group.

For the year ended 31 December 2011, through reviews conducted by the Audit Committee and study results from external consultants, the Board has conducted a review on the compliance of internal control system and internal compliance guidelines, and has come to the conclusion that such system and guidelines have been effectively executed and followed.

Corporate Governance Report

CORPORATE GOVERNANCE MEASURES

During the Year Under Review, since no new opportunities relating to the Restricted Activity (as defined in the Company's prospectus dated 12 November 2010, the "Prospectus") were referred to the Group, the Independent Non-executive Directors had not reviewed any decision in relation to new opportunities referred to the Group.

The Independent Non-executive Directors had, however, reviewed the compliance with the non-competition undertaking entered into by Golden Land International Limited ("Golden Land"), Mr. Zhao Li Sheng ("Mr. Zhao"), Golden Morning International Limited ("Golden Morning") and Ms. Chan Lok San ("Ms. Chan"), the controlling shareholders of the Company (the "Controlling Shareholders"), in favour of the Company under the Deed of Non-Competition (as defined in the Prospectus), the options, pre-emptive rights or first rights of refusals, if any, provided by the Controlling Shareholders on its existing or future competing businesses. The Independent Non-executive Directors confirmed that the terms of the Deed of Non-Competition were complied with by the Controlling Shareholders during the Year Under Review.

The Independent Non-executive Directors are not aware of any breach of the terms of the Deed of Non-Competition by the Controlling Shareholders and therefore, no enforcement action was taken against the Controlling Shareholders by the Company during the Year Under Review.

Each of the Controlling Shareholders has confirmed that he/she/it has, during the Year Under Review, complied with the non-competition undertaking under the Deed of Non-Competition.

COMPLIANCE ADVISER

The Company has appointed Guotai Junan Capital Limited as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise the Company in the following circumstances:

(a) before the publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated (including share issues and share repurchases);

(c) where the Group proposes to use the net proceeds from the initial public offering in a manner different from that detailed in the Prospectus or where the Group's business activities, developments or results deviate from any forecast, estimate or other information in the prospectus; and

(d) where the Stock Exchange makes an inquiry of the Group regarding unusual movements in the price or trading volume of the Company's shares or any other matters in accordance with Rule 13.10 of the Listing Rules.

The terms of the appointment shall commence on the Listing Date and end on the date which the Group distributes its financial results as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2011, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services totaled approximately RMB693,000 (equivalent to approximately HK$834,000).

For the year ended 31 December 2011, the total remuneration for the permissible non-audit services provided by the external auditors amounted to RMB315,000 (equivalent to approximately HK$379,000).

The Audit Committee recommends the reappointment of CCIF CPA Limited as auditors of the Company. Such recommendation has been agreed by the Board, subject to the approval of the Shareholders of the Company at the forthcoming annual general meeting.

INVESTOR RELATIONS

The Company believes that maintaining effective communication with the investment industry is crucial to having a deeper understanding of the Company's business and its development among investors. To achieve this goal and increase transparency, the Company will continue to adopt proactive measures to foster better investor relations and communications. As such, the purpose for the Company to formulate investor relations policies is to let investors have access to information of the Group in a fair and timely manner, so that they can make an informed decision.

We welcome investors to write to the Company or send their inquiries to the Company's website www.kingworld.com.cn to share their opinions with the Board. The Company's website also discloses the latest business information of the Group to investors and the public.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 27 March 2012

Report of the Directors

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL BUSINESS

The Company is an investment holding company. The principal business of the Group is the distribution of branded imported pharmaceutical and healthcare products in the PRC. As at 31 December 2011, the Group managed a portfolio of 49 products including 12 pharmaceutical products, 7 healthcare products, 28 general foodstuffs and 2 medical products which are manufactured in Japan, Canada, Hong Kong, Taiwan, Thailand and the PRC and sourced from 13 different suppliers. Many of the products distributed by the Group are established brand names including Nin Jiom Pei Pa Koa, Taiko Seirogan, Kawai Product Range, Flying Eagle Wood Lok Medicated Oil, Kyushin Pill and Mentholatum Product Series. Amongst these brands, "Nin Jiom" has always been the best-seller of the Group. Nin Jiom Pei Pa Koa is also the best-selling Chinese medical Cough Relieving Products in the PRC, being the leading product with the largest market share.

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 58 to 62.

To extend the Company's gratitude for the support of the Shareholders, the Board has recommended the distribution of a final dividend for the year ended 31 December 2011 of HK4.04 cents per share to Shareholders whose names appear on the register of members of the Company on Thursday, 24 May 2012, amounting to approximately HK$25,149,000 subject to the approval from the Company's forthcoming annual general meeting to be held on Wednesday, 16 May 2012. Total dividend payout ratio is 40% of the profit for the year or 44% of the distributable profit of the Company, after deducting non-distributable statutory reserves for the year ended 31 December 2011 of RMB4,863,000. The above-mentioned final dividend is expected to be paid on or before Friday, 15 June 2012.

CLOSURE OF THE REGISTER OF MEMBERS

To be eligible to attend and vote in the coming annual general meeting

The register of members of the Company will be closed from Monday,14 May 2012 to Wednesday,16 May 2012 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investors Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Friday, 11 May 2012.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Tuesday, 22 May 2012 to Thursday, 24 May 2012 (both days inclusive) during which period no transfer of Shares will be registered. To be qualified for receiving the proposed final dividends, all share transfer documents must be lodged with the Company's share registrar, Tricor Investors Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Monday, 21 May 2012.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2011, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2011, the Group has not made any material acquisition and disposal.

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The net proceeds from the listing of the shares of the Company on the Stock Exchange on 25 November 2010, after deduction of related expenses, was approximately HK$241,862,000 (equivalent to approximately RMB206,167,000). As at 31 December 2011, the Group had used net proceeds of approximately RMB23,600,000, of which RMB3,000,000 had been applied for expanding the product display booth scheme and RMB20,600,000 as working capital. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Prospectus.

CAPITAL COMMITMENT

As at 31 December 2011, apart from sharing the capital commitment of the jointly controlled entity, Zhuhai Jinming Medicine Co., Ltd., amounted to approximately RMB16,590,000, the Group has capital commitment of RMB65,000,000 (2010: Nil).

SHARE OPTION SCHEME

The Company operates a share option scheme ("Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including Directors, eligible employees, consultants, suppliers, customers, any shareholder of each member of the Group or associated company or any of their respective associates, who contribute to the success of the Group. The Share Option Scheme was conditionally approved by a written resolution of the shareholders of the Company dated 5 November 2010. Details of the Share Option Scheme are set out in the Prospectus.

The principal terms of the Share Option Scheme are summarized as follows:

(a) The maximum number of the Company's shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not exceed 10% of the nominal amount of all issued shares of the Company as at the Listing Date (which were 600,000,000 shares) unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

    As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 60,000,000 shares, which represents 10% of the issued shares as at the Listing Date and approximately 9.64% of the issued shares of the Company as at the date of this report.

(b) The total number of shares issued and to be issued upon the exercise of options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme and any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue.

(c) The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to the relevant participant and shall be at least the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the Company's shares on the date of grant of the option.

(d) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

(e) An offer for the grant of options must be accepted within 7 days inclusive of the day on which such offer was made and must be accepted in its entirety and can under no circumstances be accepted of less than the number of the shares for which it is offered. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.

(f) Any grant of an option to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the Independent Non-executive Directors (excluding any Independent Non-executive Director who is the grantee of the option).

(g) The Share Option Scheme shall be valid and effective commencing on the date of adoption of the Share Option Scheme, i.e. 5 November 2010, and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof.

As at 31 December 2011, no share option was granted based on the Share Option Scheme.

GOING CONCERN

Based on the current financial position and financing facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the financial statements were prepared on a "going concern" basis.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, during the Year Under Review and up to the date of this report, at least 25% of the issued shares of the Company was held by public shareholders.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 26 to the Financial Statements.

WARRANTS

On 22 September 2011, the Company issued 37,000,000 unlisted warrants (the "Warrants") at the issue price of HK$0.01 per warrant to seven placees, all being independent third parties to the Group and each warrant entitles its holder to subscribe for one new ordinary share of the Company (the "Subscription Share"), subject to adjustments, at the initial subscription price of HK$1.4 per Subscription Share at any time during the period of 18 months commencing from the issue date of the Warrants. At the date of placing, the closing market price of the Company's share was HK$1.30 per share.

The Directors consider that the placing of the Warrants is a suitable opportunity to raise capital for the Company. In particular, (i) it does not have an instant dilution effect on the shareholding of the existing Shareholders; (ii) it raises funds immediately upon completion of the placing, and if the Warrants are exercised, further funds will be raised for general working capital which will accordingly strengthen the financial conditions and shareholders base of the Company; and (iii) it also provides investors with an alternative means to invest in the Company.

The gross proceeds from the issue of Warrants amounted to HK$370,000 (without taking into account of the exercise of the subscription rights attaching to the Warrants). Assuming exercise in full of the subscription rights attaching to the Warrants at the initial subscription price, it is expected that an additional net amount of HK$51,800,000 will be raised, and the net proceeds raised per Warrant (including the allotment and issue of Subscription Share) will be approximately HK$1.40.

The aggregate net proceeds from the placing and the allotment and issue of the Subscription Shares are intended to be used as general working capital of the Group and/or for acquisition of office building(s) by the Group.

Up to the date of this report, all the Warrants have remained outstanding.

RESERVES

Details of change in reserves of the Group and the Company are set out on page 63 of the Consolidated Statement of Changes in Equity and Note 26 to the Financial Statements.

DISTRIBUTABLE RESERVES

i) Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) As at 31 December 2011, the aggregate amount of reserves available for distribution to owners of the Company was RMB281,382,000 (2010: RMB300,747,000). After the end of the Year Under Review, the Directors proposed a final dividend of HK4.04 cents (equivalent to RMB3.27 cents) (2010: HK 3.71 cents, equivalent to RMB 3.12 cents) per share amounting to RMB20,356,000 (2010: RMB19,417,000). The proposed final dividend has not been recognised as a liability at the end of the Year Under Review.

CHARITY DONATIONS

Charity donations made by the Group during the Year Under Review was approximately RMB1,359,000 (2010: RMB927,000).

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Details of changes in property, plant and equipment of the Group are set out in Note 13 to the Financial Statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued as at 31 December 2011. Increase in fair value of investment properties due to revaluation amounted to approximately RMB9,000,000, which has been included in the Consolidated Income Statement.

The Group has two investment properties. The first one is a shopping center located at Basement of Kingworld Department Store, Jiefang Road, Luohu District, Shenzhen, Guangdong Province, the PRC. The second one is an office located at Unit B on level 9 West, Yong Xing Office Building, No.22, Lane 376, Yan'an Road West, Jing'an District, Shanghai, the PRC.

Details of changes in the Group's investment properties for the year ended 31 December 2011 are set out in Note 14 of the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the terms of the Company's Articles of Association or the laws in the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing Shareholders.

SUBSIDIARY COMPANIES

Details of the major subsidiary companies of the Company as at 31 December 2011 are set out in Note 17 to the Financial Statements.

DIRECTORS

The Directors of the Company during the year ended 31 December 2011 and up to the date of this report have been:

Executive Directors

Mr. Zhao Li Sheng *(Chairman)*
Ms. Chan Lok San
Mr. Zhou Xuhua
Mr. Lin Yusheng

Independent Non-executive Directors

Mr. Zhang Jianqi
Mr. Duan Jidong
Mr. Wong Cheuk Lam

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in pages 30 to 34 under "Directors' and Senior Management's Biographies".

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that it has received from each Independent Non-executive Director a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers, based on the confirmations received, the Independent Non-executive Directors remain independent.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions to and positions held with the Company. Details of the remuneration of the Directors are set out in Note 11 to the Financial Statements.

The five highest paid individuals of the Group in the Year Under Review include 4 Directors. Details of the five highest paid individuals are set out in Note 12 to the Financial Statements.

SERVICE CONTRACTS OF DIRECTORS

Executive Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may be terminated by not less than three months' prior notice in writing served by either party on the other.

The annual basic salary payable to each of the executive Directors is as follows:

Mr. Zhao Li Sheng	HK$1,200,000
Ms. Chan Lok San	HK$1,000,000
Mr. Zhou Xuhua	HK$1,000,000
Mr. Lin Yusheng	RMB 600,000

Under their respective service contracts, each of the executive Directors is entitled to a discretionary year-end bonus of an amount to be determined by the Board and approved by the Remuneration Committee.

Each of the executive Directors will also be entitled to reimbursement of reasonable traveling, hotel, entertainment and other expenses properly incurred in the performance of his or her duties under the relevant service contract.

Independent Non-executive Directors

Each of the Independent Non-executive Directors has signed a letter of appointment with the Company for a term of three years commencing on the Listing Date and may be terminated by giving three months' notice in writing thereof by either party to the other.

The annual fees payable to each of the Independent Non-executive Directors are as follows:

Mr. Zhang Jianqi	HK$150,000
Mr. Duan Jidong	HK$150,000
Mr. Wong Cheuk Lam	HK$150,000

Each of the Independent Non-executive Directors will also be entitled to reimbursement of traveling expenses properly incurred in the performance of his/her duties under the relevant appointment letter.

Save as disclosed above, none of the Directors has entered or is proposed to enter into any service agreements with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed under the paragraph headed "continuing connected transactions", during the year ended 31 December 2011, no Director is considered to have interests in the businesses which compete or are likely to compete directly or indirectly with the businesses of the Group.

DISCLOSURE OF INTERESTS

(a) Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2011, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interest in the shares in the Company:

Name of Directors	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Zhao Li Sheng (Note 1)	Beneficial owner	6,108,000 shares	0.98%
	Interest of a controlled corporation, interest of spouse	450,000,000 shares	72.29%
Chan Lok San (Note 2)	Interest of a controlled corporation, interest of spouse	456,108,000 shares	73.27%
Zhou Xuhua (Note 3)	Interest of spouse	1,644,000 shares	0.26%

Notes:

1. Mr. Zhao is deemed (by virtue of the SFO) to be interested in 450,000,000 shares in the Company. These shares are held in the following capacity:

   (a) 360,000,000 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land International Limited ("Golden Land"), therefore, Mr. Zhao is deemed to be interested in the 360,000,000 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

   (b) 90,000,000 shares are held by Golden Morning International Limited ("Golden Morning"). Chan Lok San, the spouse of Mr. Zhao, is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 456,108,000 shares in the Company. These shares are held in the following capacity:

   (a) 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms.Chan is also the sole director of Golden Morning.

   (b) 6,108,000 shares are held by Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 360,000,000 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 6,108,000 shares held by Mr. Zhao and the 360,000,000 shares held by Golden Land.

3. Mr. Zhou is deemed (by virtue of the SFO) to be interested in 1,644,00 shares in the Company held by his spouse, Huang Xiaoli.

(II) Interests in the shares of the associated corporations of the Company

Name of Directors	Name of associated corporations	Capacity/Nature of Interest	Percentage of shareholding
Zhao Li Sheng	Golden Land	Beneficial owner	100%
Chan Lok San	Golden Morning	Beneficial owner	100%

As at 31 December 2011, save as disclosed above, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at 31 December 2011, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2011, so far as was known to the Directors, the interests or short positions of the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Long position in the Shares

Name of Shareholders	Capacity/Nature of Interest	Number of shares in the Company held	Approximate percentage of the Company's total issued share capital
Golden Land	Beneficial owner	360,000,000	57.83%
Golden Morning	Beneficial owner	90,000,000	14.46%
Zhao Li Sheng (Note 1)	Beneficial owner	6,108,000	0.98%
	Interest of a controlled corporation, interest of spouse	450,000,000	72.29%
Chan Lok San (Note 2)	Interest of a controlled corporation, interest of spouse	456,108,000	73.27%

Notes:

1. Mr. Zhao is deemed (by virtue of the SFO) to be interested in 450,000,000 shares in the Company. These shares are held in the following capacity:

   (a) 360,000,000 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Mr. Zhao is deemed to be interested in the 360,000,000 shares held by Golden Land. Mr. Zhao is also the sole director of Golden Land.

(b) 90,000,000 shares are held by Golden Morning. Chan Lok San, the spouse of Mr. Zhao, is the beneficial owner of the entire Issued share capital of Golden Morning, therefore, Mr. Zhao is also deemed to be interested in the 90,000,000 shares held by Golden Morning.

2. Ms. Chan is deemed (by virtue of the SFO) to be interested in 456,108,000 shares in the Company. These shares are held in the following capacity:

   (a) 90,000,000 shares are held by Golden Morning. Ms. Chan is the beneficial owner of the entire issued share capital of Golden Morning, therefore, Ms. Chan is deemed to be interested in the 90,000,000 shares held by Golden Morning. Ms. Chan is also the sole director of Golden Morning.

   (b) 6,108,000 shares are held by Zhao Li Sheng, the spouse of Ms. Chan, in his own name and 360,000,000 shares are held by Golden Land. Mr. Zhao is the beneficial owner of the entire issued share capital of Golden Land, therefore, Ms. Chan is also deemed to be interested in the 6,108,000 shares held by Mr. Zhao and the 360,000,000 shares held by Golden Land.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 31 December 2011, no person (other than the Directors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

Save as disclosed in the paragraph headed "Share Option Scheme" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or executives (including their spouse and children under 18 years of age) of the Company to have the rights to acquire securities of the Company or its associated companies (as defined in the SFO), or to acquire benefits by means of acquisition of securities of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed "continuing connected transactions", as at 31 December 2011 and during any time for the year ended 31 December 2011, there was no contract of significance (as defined in Appendix 16 to the Listing Rules) subsisting in which a Director is or was materially interested, whether directly or indirectly.

Save as disclosed under the paragraph headed "continuing connected transactions", as at 31 December 2011 and during any time for the year ended 31 December 2011, there was no contract of significance in relation to the Company's business subsisting to which the Company, its subsidiary, its holding company or a subsidiary of its holding company was a party and in which a Director has or had, or at any time during that period, in any way, whether directly or indirectly, a material interest.

Save as disclosed under the paragraph headed "continuing connected transactions", as at 31 December 2011 and during any time for the year ended 31 December 2011, none of the Directors was in any way, directly or indirectly, materially interested in any contract of significance in relation to the Company's business entered into or proposed to be entered into with the Company.

MANAGEMENT CONTRACTS

There was no contracts concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the year.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2011, the Group had entered into various transactions with certain individuals and entities that are regarded as connected persons of the Company (as defined under Chapter 14A of the Listing Rules). Details of these individuals and entities are set out in Note 32 to the Financial Statements.

The recurring related party transactions set out in Note 32 to the Financial Statements fall within the definition of "continuing connected transaction" in Chapter 14A of the Listing Rules while the key management remuneration set out in Note 32 to the Financial Statements do not fall within the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. The Company has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The Company was granted a waiver or obtained independent Shareholders' approval (as the case may be) in relation to the following continuing connected transactions, which will expire on 31 December 2012. Unless otherwise defined herein, terms used below shall have the same meanings as defined in the Prospectus and the Company's announcement dated 28 March 2011 (the "Announcement").

Transaction	Member of the Group	Connected person	2011 RMB'000	Approximate Annual Cap for 2011 RMB'000
Purchase and distribution of Kingworld Product Range from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	2,575	6,584
Purchase and distribution of Imada Red Flower Oil from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	17,054	25,000
Purchase and distribution of Min Tong Chisionhon Granules from Pearl Shining	SZ Kingworld	Ms. Cheng Lok Yam, Ella trading as Pearl Shining	–	2,247
Purchase and distribution of Fengbao Jianfu Capsule from Yuen Tai	SZ Kingworld	Yuen Tai	392	9,662
Purchase and distribution of Additional Yuen Tai Pharmaceutical and Healthcare Products from Yuen Tai	SZ Kingworld	Yuen Tai	–	2,300
Purchase and distribution of Additional SZ Kingworld Lifeshine Pharmaceutical and Healthcare Products from SZ Kingworld Lifeshine	SZ Kingworld	SZ Kingworld Lifeshine	219	22,000

Purchase and distribution of Kingworld Product Range from SZ Kingworld Lifeshine

SZ Kingworld Lifeshine is a wholly-owned subsidiary of Morning Gold which is owned as to 51% by Mr. Zhao and 49% by Ms. Chan.

On 21 October 2010, SZ Kingworld entered into a distribution agreement with SZ Kingworld Lifeshine (the "Kingworld Product Range Distribution Agreement"), pursuant to which, inter alia, SZ Kingworld, being the exclusive distributor of SZ Kingworld Lifeshine, agreed to purchase the Kingworld Product Range from SZ Kingworld Lifeshine for distribution in the PRC for a term commencing on the Listing Date and expiring on 31 December 2012.

Under the Kingworld Product Range Distribution Agreement, the purchase prices of Kingworld Product Range payable by SZ Kingworld to SZ Kingworld Lifeshine take into account the PRC government price restrictions and are determined by reference to the prevailing market price or are no less favourable than those SZ Kingworld can obtain from independent third parties.

Purchase and distribution of Imada Red Flower Oil from SZ Kingworld Lifeshine

On 21 October 2010, SZ Kingworld entered into a distribution agreement with SZ Kingworld Lifeshine (the "Imada Red Flower Oil Distribution Agreement"), pursuant to which, inter alia, SZ Kingworld, being the exclusive distributor of SZ Kingworld Lifeshine, agreed to purchase the Imada Red Flower Oil from SZ Kingworld Lifeshine for distribution in the PRC for a term commencing on the Listing Date and expiring on 31 December 2012.

Under the Imada Red Flower Oil Distribution Agreement, the purchase prices of Imada Red Flower Oil payable by SZ Kingworld to SZ Kingworld Lifeshine are determined by reference to the prevailing market price or are no less favourable than those SZ Kingworld can obtain from independent third parties.

Purchase and distribution of Min Tong Chisionbon Granules from Pearl Shining

Pearl Shining Company ("Pearl Shining") is a sole proprietorship of Ms. Cheng Lok Yam, Ella, a sister-in-law of Ms. Chan, who is a Controlling Shareholder and a Director. On 21 October 2010, SZ Kingworld entered into a distribution agreement with Pearl Shining (the "Min Tong Chisionhon Granules Distribution Agreement"), pursuant to which SZ Kingworld, being the exclusive distributor of Pearl Shining, agreed to purchase Min Tong Chisionhon Granules from Pearl Shining for distribution in the PRC for a term commencing on the Listing Date and expiring on 31 December 2012.

Under the Min Tong Chisionhon Granules Distribution Agreement, the purchase prices of Min Tong Chisionhon Granules payable by SZ Kingworld to Pearl Shining are determined by reference to the prevailing market price.

Purchase and distribution of Fengbao Jianfu Capsule from Yuen Tai

Yuen Tai Pharmaceuticals Limited ("Yuen Tai") is beneficially owned by Morning Gold, which is held by Mr. Zhao and Ms. Chan as to 51% and 49% of its shareholding respectively. On 21 October 2010, SZ Kingworld entered into a distribution agreement with Yuen Tai (the "Fengbao Jianfu Capsule Distribution Agreement"), pursuant to which SZ Kingworld, being the exclusive distributor of Fengbao Jianfu Capsule, agreed to purchase Fengbao Jianfu Capsule from Yuen Tai for distribution in the PRC for a term commencing on the Listing Date and expiring on 31 December 2012.

Under the Fengbao Jianfu Capsule Distribution Agreement, the purchase prices of Fengbao Jianfu Capsule payable by SZ Kingworld to Yuen Tai are determined by reference to the prevailing market price or are no less favourable than those SZ Kingworld can obtain from independent third parties.

Purchase and distribution of additional Yuen Tai pharmaceutical and healthcare products from Yuen Tai

On 28 March 2011, SZ Kingworld entered into the Yuen Tai Master Pharmaceutical and Healthcare Products Distribution Agreement with Yuen Tai, pursuant to which SZ Kingworld conditionally agreed to purchase Additional Yuen Tai Pharmaceutical and Healthcare Products (as defined in the Announcement) from Yuen Tai and act as the exclusive distributor of Yuen Tai for distribution of such pharmaceutical and healthcare products in the PRC for a term commencing from the date of approval of the independent Shareholders (i.e. 24 May 2011) and expiring on 31 December 2012.

Under the Yuen Tai Master Pharmaceutical and Healthcare Products Distribution Agreement, the purchase prices of the Additional SZ Kingworld Lifeshine Pharmaceutical and Healthcare Products payable by SZ Kingworld to Yuen Tai should be on normal commercial terms and no less favourable than those obtained from independent third parties by SZ Kingworld.

Purchase and distribution of additional SZ Kingworld Lifeshine pharmaceutical and healthcare products from SZ Kingworld Lifeshine

On 28 March 2011, SZ Kingworld entered into the SZ Kingworld Lifeshine Master Pharmaceutical and Healthcare Products Distribution Agreement with SZ Kingworld Lifeshine, pursuant to which SZ Kingworld conditionally agreed to purchase Additional SZ Kingworld Lifeshine Pharmaceutical and Healthcare Products (as defined in the Announcement) from SZ Kingworld Lifeshine and act as the exclusive distributor of SZ Kingworld Lifeshine for distribution of such pharmaceutical and healthcare products in the PRC for a term commencing from the date of approval of the independent Shareholders (i.e. 24 May 2011) and expiring on 31 December 2012.

Under the SZ Kingworld Lifeshine Master Pharmaceutical and Healthcare Products Distribution Agreement, the purchase prices of the Additional SZ Kingworld Lifeshine Pharmaceutical and Healthcare Products payable by SZ Kingworld to SZ Kingworld Lifeshine should be on normal commercial terms and no less favourable than those obtained from independent third parties by SZ Kingworld.

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirm that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has issued a letter to the Board stating that the above continuing connected transactions:

1. have received the approval of the Board;

2. did not involve the provision of goods and services made by the Group;

3. have been entered into in accordance with the relevant agreements governing the transactions; and

4. did not exceed the respective annual caps as disclosed in the Prospectus or the Announcement.

PLEDGE OF ASSETS

As at 31 December 2011, the Group has pledged assets of bills receivables and bank deposits to the bank in the amount of approximately RMB78,476,000 (31 December 2010: RMB147,673,000).

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various short-term bank borrowings. For the Year Under Review, the effective interest rate for (i) fixed rate loans was 6.7% - 12.9% and (ii) variable rate loans was 4.9%. Taking into account the cash flow generated from operations and the bank borrowing facilities available to the Group, the Directors are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 31 December 2011, the Group had cash and cash equivalents of RMB141,041,000 mainly generated from operations of the Group and funds raised from the listing of the shares of the Company in November 2010.

MAJOR CUSTOMERS AND SUPPLIERS

For the year 2011, the total turnover of the Group's five largest customers accounted for approximately 19.2% of the Group's revenue, in which turnover from the largest customers of the Group accounted for approximately 5.6% of the total revenue of the Group. In 2011, total purchases of the Group's five largest suppliers accounted for approximately 93.5% of the Group's total purchase, in which purchase from the largest supplier of the Group accounted for approximately 77.9% of the total purchase of the Group.

None of the Directors, their respective associates or any Shareholders (interested in 5% or more of the share capital to the best knowledge of the Board) has any interest in any of the five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2011 are set out in Note 2(v) to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

STATEMENT OF NO CHANGE OF AUDITOR

The Board confirmed that there has been no change of auditor of the Company since the Listing Date.

Report of the Directors

AUDITOR

This Financial Statements were audited by CCIF CPA Limited who will retire by the end of the upcoming annual general meeting, but it offers itself for re-appointment. The resolution of re-appointing CCIF CPA Limited will be raised and voted in the upcoming annual general meeting.

On behalf of the Board
Kingworld Medicines Group Limited
Mr. Zhao Li Sheng
Chairman of the Board

Hong Kong, 27 March, 2012

Independent Auditor's Report

CCIF CPA LIMITED
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

TO THE SHAREHOLDERS OF KINGWORLD MEDICINES GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kingworld Medicines Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 58 to 123, which comprise the consolidated and Company statements of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 27 March 2012

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Income Statement

For the year ended 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Turnover	4	**685,562**	638,046
Cost of sales		**(524,730)**	(497,899)
Gross profit		**160,832**	140,147
Valuation gain on investment properties	14	**9,000**	9,000
Other revenue	5 (a)	**6,012**	8,683
Other net income	5 (b)	**11,257**	3,664
Selling and distribution costs		**(70,900)**	(64,861)
Administrative expenses		**(37,695)**	(25,473)
Listing expenses		**—**	(4,786)
Profit from operations		**78,506**	66,374
Finance costs	6 (a)	**(4,690)**	(8,032)
Profit before taxation	6	**73,816**	58,342
Income tax	7	**(22,785)**	(15,479)
Profit for the year		**51,031**	42,863
Attributable to:			
Owners of the Company	8	**51,031**	42,863
Earnings per share			
Basic and diluted (RMB cents)	10	**8.20**	9.18

The notes on pages 66 to 123 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Profit for the year		**51,031**	42,863
Other comprehensive income/(loss) for the year			
Exchange differences on translation of financial statements of foreign operations		**(8,460)**	(2,713)
Surplus on revaluation of leasehold land and building held for own use	13 & 15	**689**	—
Tax charge	25(b)	**(165)**	—
Surplus on revaluation of leasehold land and building held for own use, net of tax		**524**	—
		(7,936)	(2,713)
Total comprehensive income for the year (net of tax)		**43,095**	40,150
Attributable to:			
Owners of the Company		**43,095**	40,150

The notes on pages 66 to 123 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	13	**8,943**	4,431
Investment properties	14	**68,600**	55,000
Prepaid lease payments	15	**3,804**	7,259
Deposit paid for property, plant and equipment	16	**10,000**	—
		91,347	66,690
Current assets			
Inventories	19	**49,140**	59,317
Trade and other receivables	20	**329,032**	222,925
Pledged bank deposits	21	**9,890**	131,873
Cash and cash equivalents	22	**141,041**	269,526
		529,103	683,641
Current liabilities			
Trade and other payables	23	**157,324**	168,493
Bank loans	24	**47,168**	197,846
Current taxation	25(a)	**12,841**	8,661
		217,333	375,000
Net current assets		**311,770**	308,641
Total assets less current liabilities		**403,117**	375,331
Non-current liabilities			
Deferred tax liabilities	25(b)	**8,620**	5,023
NET ASSETS		**394,497**	370,308

The notes on pages 66 to 123 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
CAPITAL AND RESERVES	26		
Share capital		**53,468**	53,468
Reserves		**341,029**	316,840
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**394,497**	370,308

Approved and authorised for issue by the board of directors on 27 March 2012.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 66 to 123 form part of these financial statements.

Statement of Financial Position

At 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Investments in subsidiaries	17	**222,952**	155,864
Current assets			
Cash and cash equivalents	22	**119,902**	224,290
Current liabilities			
Other payables	23	**1,269**	3,904
Amounts due to subsidiaries	23	**26,737**	24,423
		28,006	28,327
Net current assets		**91,896**	195,963
NET ASSETS		**314,848**	351,827
CAPITAL AND RESERVES	26		
Share capital		**53,468**	53,468
Reserves		**261,380**	298,359
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**314,848**	351,827

Approved and authorised for issue by the board of directors on 27 March 2012.

Mr. Zhao Li Sheng
Director

Ms. Chan Lok San
Director

The notes on pages 66 to 123 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011
(Expressed in Renminbi)

	Share capital RMB'000 (note 26(a))	Share premium RMB'000 (note 26(b))	Capital reserve RMB'000 (note 26(c))	Statutory and discretionary reserves RMB'000 (note 26(d))	Contributed surplus RMB'000 (note 26(e))	Property revaluation reserve RMB'000 (note 26(f))	Warrant reserve RMB'000 (note 26(g))	Exchange reserve RMB'000 (note 26(h))	Retained profits RMB'000	Total RMB'000
At 1 January 2011	**53,468**	**152,700**	**—**	**23,895**	**89,068**	**—**	**—**	**(2,779)**	**53,956**	**370,308**
Changes in equity:										
Profit for the year	—	—	—	—	—	—	—	—	51,031	51,031
Other comprehensive income/(loss) for the year	—	—	—	—	—	524	—	(8,460)	—	(7,936)
Total comprehensive income for the year	—	—	—	—	—	524	—	(8,460)	51,031	43,095
Transfer	—	—	—	—	(30,000)	—	—	—	30,000	—
Issue of warrants	—	—	—	—	—	—	300	—	—	300
Transfer	—	—	—	4,863	—	—	—	—	(4,863)	—
Dividends	—	—	—	—	—	—	—	—	(19,206)	(19,206)
At 31 December 2011	**53,468**	**152,700**	**—**	**28,758**	**59,068**	**524**	**300**	**(11,239)**	**110,918**	**394,497**
At 1 January 2010	1	89,000	68	19,866	—	—	—	(66)	47,159	156,028
Changes in equity:										
Profit for the year	—	—	—	—	—	—	—	—	42,863	42,863
Other comprehensive loss for the year	—	—	—	—	—	—	—	(2,713)	—	(2,713)
Total comprehensive income for the year	—	—	—	—	—	—	—	(2,713)	42,863	40,150
Shares issued for acquisition of a subsidiary pursuant to the Reorganisation	—	(89,000)	(68)	—	89,068	—	—	—	—	—
Capitalisation issue	38,650	(38,650)	—	—	—	—	—	—	—	—
Shares issued upon placing and public offering	12,883	193,252	—	—	—	—	—	—	—	206,135
Shares issued upon exercise of the over-allotment option	1,934	29,015	—	—	—	—	—	—	—	30,949
Share issuance costs	—	(30,917)	—	—	—	—	—	—	—	(30,917)
Transfer	—	—	—	4,029	—	—	—	—	(4,029)	—
Dividends	—	—	—	—	—	—	—	—	(32,037)	(32,037)
At 31 December 2010	**53,468**	**152,700**	**—**	**23,895**	**89,068**	**—**	**—**	**(2,779)**	**53,956**	**370,308**

The notes on pages 66 to 123 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011
(Expressed in Renminbi)

	Note	**2011**	2010
		RMB'000	RMB'000
Operating activities			
Profit before taxation		**73,816**	58,342
Adjustments for:			
Amortisation of prepaid lease payments	6(c)	**190**	243
Depreciation	6(c)	**1,431**	885
Finance costs	6(a)	**4,690**	8,032
Interest income	5(a)	**(2,198)**	(4,862)
Loss on disposal of property, plant and equipment	6(c)	**17**	2
Impairment loss of trade and other receivables	6(c)	**1,216**	268
Reversal of impairment loss on trade receivables	6(c)	**(65)**	—
Net unrealised gain on forward foreign exchange contracts	5(b)	**—**	(2,129)
Valuation gain on investment properties	14	**(9,000)**	(9,000)
Write-down of inventories	19	**225**	341
Changes in working capital			
Decrease in inventories		**9,952**	16,204
Increase in trade and other receivables		**(107,258)**	(42,551)
Decrease in trade and other payables		**(11,169)**	(4,389)
Cash (used in)/generated from operations		**(38,153)**	21,386
PRC income tax paid		**(15,173)**	(7,970)
Net cash (used in)/generated from operating activities		**(53,326)**	13,416

The notes on pages 66 to 123 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(6,623)**	(1,685)
Proceeds from sale of property, plant and equipment		**4**	—
Deposit paid for property, plant and equipment		**(10,000)**	—
Interest received		**2,198**	4,862
Net cash (used in)/generated from investing activities		**(14,421)**	3,177
Financing activities			
Decrease in pledged bank deposits		**121,983**	114,746
Proceeds from new bank loans		**57,873**	143,611
Repayment of bank loans		**(208,551)**	(252,371)
Finance costs paid		**(4,690)**	(8,032)
Dividend paid		**(19,206)**	(32,037)
Proceeds from shares issued upon placing and public offering		**—**	206,135
Proceeds from shares issued upon exercise of the over-allotment option		**—**	30,949
Proceeds from issue of warrants		**300**	—
Share issuance costs		**—**	(30,917)
Net cash (used in)/generated from financing activities		**(52,291)**	172,084
Net (decrease)/increase in cash and cash equivalents		**(120,038)**	188,677
Cash and cash equivalents at beginning of year		**269,526**	83,562
Effect of foreign exchange rate changes		**(8,447)**	(2,713)
Cash and cash equivalents at end of year	22	**141,041**	269,526

The notes on pages 66 to 123 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1. GENERAL INFORMATION

Kingworld Medicines Group Limited (the "Company") was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 10 July 2008. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 25 November 2010 (the "Company's Listing"). The address of the Company's registered office and the principal place of business are disclosed in the corporate information in the annual report.

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in distribution sale of branded imported pharmaceutical and healthcare products in the People's Republic of China ("PRC").

Pursuant to a group reorganisation (the "Reorganisation"), which was completed on 3 November 2010, in preparation for listing of shares of the Company on the Main Board of the Stock Exchange and rationalizing the Group's structure, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the section headed "The Reorganisation" in Appendix V to the prospectus of the Company dated 12 November 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

a) *Statement of compliance*

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting year of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting years reflected in these financial statements.

b) *Basis of preparation of the financial statements*

The consolidated financial statements for the period from 1 January 2010 and up to the date of the Reorganisation were prepared as if the current group structure had been in existence throughout the period. The Group was under the control by Mr. Zhao Li Sheng ("Mr. Zhao") and Ms. Chan Lok San ("Ms. Chan") prior to the Reorganisation. Pursuant to the Reorganisation, which was completed on 3 November 2010 by interspersing the Company and its subsidiaries under the control by Mr. Zhao and Ms. Chan, the Company became the holding company of the subsidiaries comprising the Group. Accordingly, the consolidated financial statements for the period from 1 January 2010 and up to the date of the Reorganisation were prepared as if the Company had been the holding company of the Group throughout the period in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by HKICPA.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) *Basis of preparation of the financial statements* (Continued)

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries and its interest in a jointly controlled entity.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except when otherwise indicated. The Company and other investment holding subsidiaries incorporated in the British Virgin Islands (the "BVI") and Hong Kong have adopted Hong Kong dollars ("HK$") as their functional currency. The functional currency of the PRC subsidiaries is RMB. As the Group mainly operates in the Mainland China, RMB is used as the presentation currency of the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair values as explained in the accounting policies set out below:

— investment properties;

— financial assets at fair value through profit or loss; and

— derivative financial instruments

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

c) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any impairment losses (see note 2(k)(ii)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) *Jointly controlled entity*

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entity.

The Group recognises its interest in jointly controlled entity using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of the jointly controlled entity are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

When the Group's entities transact with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

e) *Financial assets at fair value through profit or loss*

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

— such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

— the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

— it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At the end of each reporting period subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

f) *Derivative financial instruments*

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) *Investment properties*

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(i)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the consolidated statement of financial position at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(t)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(i).

h) *Property, plant and equipment*

Property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and any impairment losses (see note 2(k)(ii)):

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— buildings situated on leasehold land are depreciated over the shorter of the unexpired lease term and estimated useful lives, being no more than 20 years	
— leasehold improvements	5 years or over the remaining term of the lease, if shorter
— furniture, fixtures and office equipment	10%-20% per annum
— motor vehicles	10%-20% per annum

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

(i) when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

(ii) when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) *Property, plant and equipment (Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Construction in progress represents buildings and plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is stated at cost less any identified impairment loss (see note 2(k)(ii)). Cost comprises construction expenditure and other direct costs attributable to such projects, if the amount of capital expenditures and the time involved to complete the construction are significant. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

i) *Leased assets*

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) *Classification of assets leased to the Group*

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

— Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(g)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

i) Leased assets (Continued)

i) Classification of assets leased to the Group (Continued)

— Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged as expenses in the accounting period in which they are incurred.

The cost of acquiring land held under operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

iii) Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis, except for those that are classified and accounted for as investment properties under the fair value model.

j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) *Impairment of assets*

i) *Impairment of trade and other receivables*

Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade and other receivables and other financial assets carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Impairment of assets (Continued)

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment

— prepaid lease payments;

— deposit paid for property, plant and equipment; and

— investments in subsidiaries

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of fair value less costs to sell and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in the profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) *Impairment of assets* *(Continued)*

iii) *Interim financial reporting and impairment*

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill and available for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

l) *Trade and other receivables*

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts. (see note 2(k)(i))

m) *Trade and other payables*

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

n) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

o) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case they are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

q) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in profit or loss in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided that when it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) *Sales of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and other sales taxes and is stated after deduction of returns and discounts.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) *Revenue recognition* *(Continued)*

ii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

iii) *Commission income*

Commission income is recognised when the services are rendered.

iv) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

v) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

u) *Segment reporting*

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's directors, i.e., the chief operating decision-makers, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group is principally engaged in distribution sale of branded imported pharmaceutical and healthcare products. The revenue, results and assets of pharmaceutical products were more than 90% of the Group's revenue, results and assets during the year. No business segment analysis is presented accordingly.

The Group's turnover and results from operations mainly derived from activities in the PRC. The principal assets of the Group were located in the PRC during the year. Accordingly, no analysis by geographical information is provided.

During the year, there was no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) *Employee benefits*

i) *Short term employee benefits and contribution to define contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contribution to define contribution retirement plans and cost of non-monetary benefits are accrued in each of the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) *Defined contribution retirement plan obligation*

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

iii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

w) *Related parties*

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(Expressed in Renminbi unless otherwise indicated)

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued new and revised HKFRSs that are first effective for the current accounting year of the Group. Of these, the following developments are relevant to the Group's financial statements:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK (IFRIC*) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK (IFRIC*) - Int 19	Extinguishing Financial Liabilities with Equity Instruments

* IFRIC represents the International Financial Reporting Interpretations Committee.

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior accounting years and/or on the disclosures set out in these financial statements.

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the group's related party disclosure in current and previous years.

Improvements to HKFRSs issued in 2010

Improvements to HKFRSs issued in 2010 omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7 Financial instruments: Disclosures. The disclosures about the Group's and the Company's financial instruments in note 28 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous years.

4. TURNOVER

Turnover represents sales of branded imported pharmaceutical and healthcare products at net invoiced value of goods sold, less value-added and sales taxes, returns and discounts, during the year.

	2011 RMB'000	2010 RMB'000
Sales of		
– pharmaceutical products	**663,327**	597,593
– healthcare products	**22,235**	40,453
	685,562	638,046

5. OTHER REVENUE AND OTHER NET INCOME

a) *Other revenue*

	2011 RMB'000	2010 RMB'000
Total interest income on financial assets not at fair value through profit or loss:		
Bank interest income	**2,198**	4,862
Commission income	**409**	397
Government grant (note)	**—**	2,000
Gross rental income from investment properties	**1,653**	1,424
Others	**1,752**	—
	6,012	8,683

Note: This represents the PRC government grant to the Group for its expenses incurred in the Company's Listing.

b) *Other net income*

	2011 RMB'000	2010 RMB'000
Net gain on financial assets at fair value through profit or loss	**272**	73
Net realised loss on forward foreign exchange contracts	**(983)**	(3,350)
Net unrealised gain on forward foreign exchange contracts	**—**	2,129
Net foreign exchange gain	**11,968**	4,812
	11,257	3,664

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting) the following:

		2011 RMB'000	2010 RMB'000
a)	**Finance costs**		
	Total interest expense on financial liabilities not at fair value through profit or loss:		
	Interest on bank loans wholly repayable within five years	**4,690**	8,032
b)	**Staff costs (including directors' remuneration)**		
	Salaries and other benefits	**21,462**	22,702
	Contributions to defined contribution retirement plan	**3,926**	2,706
		25,388	25,408
c)	**Other items**		
	Amortisation of prepaid lease payments	**190**	243
	Auditors' remuneration		
	– audit service	**693**	660
	– non-audit service	**315**	—
	Cost of inventories (note 19)	**524,730**	497,899
	Depreciation	**1,431**	885
	Impairment losses on trade receivables (note 20(c))	**1,150**	268
	Impairment losses of other receivables	**66**	—
	Listing expenses	**—**	4,786
	Loss on disposal of property, plant and equipment	**17**	2
	Operating lease charges in respect of land and buildings	**3,535**	1,812
	Rental income from investment properties less direct outgoings of RMB408,000 (2010: RMB390,000)	**(1,245)**	(1,034)
	Reversal of impairment loss on trade receivables (note 20(c))	**(65)**	—

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

a) *Income tax in the consolidated income statement represents:*

	2011 RMB'000	2010 RMB'000
PRC Income tax		
– Current year	**17,663**	10,994
– Underprovision in respect of prior years	**141**	—
	17,804	10,994
Deferred tax (note 25(b))		
– current year	**4,827**	4,511
– attributable to a change in tax rate	**154**	(26)
	4,981	4,485
	22,785	15,479

i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

ii) No provision for Hong Kong Profits Tax has been provided as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2011 and 2010.

iii) The PRC income tax charge of the Group during the years ended 31 December 2011 and 2010 represented mainly the PRC income tax charge from the Group's subsidiary, Shenzhen Kingworld Medicine Company Limited ("SZ Kingworld") and the Group's proportionate share of PRC income tax charge from a jointly controlled entity, Zhuhai City Jinming Medicine Company Limited ("Zhuhai Jinming").

Pursuant to the relevant laws and regulations in the PRC, SZ Kingworld and Zhuhai Jinming are located in an approved economic zone in the PRC and were subject to an income tax rate of 24% (2010: 22%) during the year.

The National People's Congress of the PRC approved the Corporate Income Tax Law of the PRC ("New CIT Law") on 16 March 2007. With effect from 1 January 2008, the tax rate applicable to enterprises established in the PRC will be unified at 25% with certain grandfather provisions and preferential provisions. SZ Kingworld and Zhuhai Jinming are both entitled to the transitional tax rate of 22%, 24% and 25% in 2010, 2011, 2012 onwards respectively.

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

a) *Income tax in the consolidated income statement represents:* (Continued)

iv) Deferred tax liabilities of RMB2,667,000 (2010: RMB2,531,000) have been recognised by the Group during the year for undistributed retained profits of the Group's PRC subsidiaries.

b) *Reconciliation between tax expense and accounting profit at the applicable tax rates:*

	2011 RMB'000	2010 RMB'000
Profit before taxation	**73,816**	58,342
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	**18,095**	13,344
Tax effect of non-deductible expenses	**2,026**	2,828
Tax effect of non-taxable income	**(998)**	(3,118)
Tax effect of unused tax losses not recognised	**972**	—
Unrecognised temporary difference	**(272)**	(80)
Withholding tax on undistributed profits of PRC subsidiaries (note (a) (iv))	**2,667**	2,531
Effect on opening deferred tax balance resulting from a change in tax rate	**154**	(26)
Under-provision in prior years	**141**	—
Actual tax expense	**22,785**	15,479

8. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a loss of RMB159,000 (2010: RMB 7,816,000) which has been dealt with in the financial statements of the Company (note 26).

9. DIVIDENDS

a) *Dividends payable to owners of the Company attributable to the year*

	2011 RMB'000	2010 RMB'000
Interim dividend declared and paid (note (i))	—	5,637
Final dividend proposed after the end of the reporting period of HK4.04 cents (equivalent to RMB3.27 cents) (2010: HK3.71 cents (equivalent to RMB3.12 cents)) per ordinary share (note (ii))	20,356	19,417
	20,356	25,054

b) *Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year*

	2011 RMB'000	2010 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3.71 cents (equivalent to approximately RMB3.08 cents) (note (i))	19,206	26,400

i) The amounts of interim dividend of RMB5,637,000 during the year ended 31 December 2010 and final dividend of RMB26,400,000 in respect of the financial year ended 31 December 2009, approved and paid during the year ended 31 December 2010, were declared and paid prior to the Reorganisation, represent dividends declared by Kingworld Medicine and Healthcare Group Limited ("BVI Kingworld"), a direct subsidiary of the Company, to their then shareholders prior to the Reorganisation. The rates of dividend and the number of shares ranking for dividends were not presented in these consolidated financial statements as it was not indicative of the future dividend policy of the Company.

ii) The final dividend of HK4.04 cents (equivalent to approximately RMB3.27 cents) (2010: HK3.71 cents (equivalent to RMB3.12 cents)) per share proposed after 31 December 2011 is subject to approval by the Company's shareholders in the annual general meeting. The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

10. BASIC AND DILUTED EARNINGS PER SHARE

During the year, the calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB51,031,000 and the weighted average number of 622,500,000 ordinary shares.

During the year ended 31 December 2010, the calculation of basic earnings per share is based on the net profit attributable to owners of the Company of RMB42,863,000, and the weighted average number of 467,116,000 ordinary shares, after taking into account 450,000,000 ordinary shares of the Company, the issuance of ordinary shares in connection with the placing and public offering and the exercise of over-allotment option during the year ended 31 December 2010.

Weighted average number of ordinary shares

	Number of shares	
	2011	2010
	'000	'000
Issued ordinary shares at 1 January	**622,500**	450,000
Effect of share issued in the placing and public offering (note 26(a)(iv))	**—**	15,205
Effect of the exercise of the over-allotment option (note 26(a)(v))	**—**	1,911
Weighted average number of ordinary shares at 31 December	**622,500**	467,116

The exercise of warrants of the Company had anti-dilutive effect during the year. There were no potential dilutive ordinary shares in issue during the year ended 31 December 2010. The diluted earnings per share is same as the basic earnings per share for both years accordingly.

11. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Fees	Basic salaries, allowances and other benefits	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011					
Executive directors:					
Zhao Li Sheng	**—**	**1,025**	**—**	**—**	**1,025**
Chan Lok San	**—**	**876**	**—**	**—**	**876**
Lin Yusheng	**—**	**593**	**—**	**11**	**604**
Zhou Xuhua	**—**	**840**	**—**	**40**	**880**
Independent non-executive directors:					
Duan Jidong	**128**	**—**	**—**	**—**	**128**
Wong Cheuk Lam	**128**	**—**	**—**	**—**	**128**
Zhang Jianqi	**128**	**—**	**—**	**—**	**128**
	384	**3,334**	**—**	**51**	**3,769**
2010					
Executive directors:					
Zhao Li Sheng	—	830	—	—	830
Chan Lok San	—	625	70	—	695
Lin Yusheng	—	347	1,531	10	1,888
Zhou Xuhua	—	733	18	52	803
Independent non-executive directors:					
Duan Jidong (note)	11	—	—	—	11
Wong Cheuk Lam (note)	11	—	—	—	11
Zhang Jianqi (note)	11	—	—	—	11
	33	2,535	1,619	62	4,249

During the years ended 31 December 2011 and 2010, no amount was paid or payable to the directors or any of the five highest paid individuals set out in note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any director waived or agreed to waive any remuneration during both years.

Note:

Appointed on 5 November 2010.

(Expressed in Renminbi unless otherwise indicated)

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 4 (2010: 4) directors during the year, whose emoluments are disclosed in note 11. The emoluments in respect of the remaining individual are as follows:

	2011 **RMB'000**	2010 RMB'000
Salaries and allowance	**388**	336
Discretionary bonuses	**—**	61
Retirement scheme contributions	**—**	—
	388	397

The emoluments of individuals other than directors with the highest emoluments are within the following bands:

	2011	2010
HK$nil to HK$1,000,000	**1**	1

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Building RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2010	707	239	3,933	3,583	—	8,462
Additions	—	53	419	704	509	1,685
Disposal	—	—	(18)	—	—	(18)
At 31 December 2010	707	292	4,334	4,287	509	10,129
At 1 January 2011	707	292	4,334	4,287	509	10,129
Exchange adjustments	—	—	—	(32)	—	(32)
Additions	—	244	579	3,407	2,393	6,623
Disposal	—	—	(179)	—	—	(179)
Surplus on revaluation (note 13(b))	84	—	—	—	—	84
Less: elimination of accumulated depreciation	(61)	—	—	—	—	(61)
Reclassification to investment properties (note 13(b))	(730)	—	—	—	—	(730)
At 31 December 2011	**—**	**536**	**4,734**	**7,662**	**2,902**	**15,834**
Accumulated depreciation						
At 1 January 2010	8	94	2,175	2,552	—	4,829
Charge for the year	32	45	472	336	—	885
Disposal	—	—	(16)	—	—	(16)
At 31 December 2010	40	139	2,631	2,888	—	5,698
At 1 January 2011	40	139	2,631	2,888	—	5,698
Exchange adjustments	—	—	—	(19)	—	(19)
Charge for the year	21	98	507	805	—	1,431
Disposal	—	—	(158)	—	—	(158)
Eliminated on revaluation	(61)	—	—	—	—	(61)
At 31 December 2011	**—**	**237**	**2,980**	**3,674**	**—**	**6,891**
Carrying amount						
At 31 December 2011	**—**	**299**	**1,754**	**3,988**	**2,902**	**8,943**
At 31 December 2010	667	153	1,703	1,399	509	4,431

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group *(Continued)*

a) The building is held under a medium term lease in the PRC.

b) During the year, the building of the Group held for own use was leased out to two independent third parties under operating leases. Upon the change of use, the building was revalued at fair value with a surplus on revaluation of RMB84,000 recognised in the Group's property revaluation reserve, and the carrying value of the building of RMB730,000 was reclassified to investment property (note 14). The fair value was arrived at on the basis of the valuation carried out by an independent firm of valuers, DTZ Debenham Tie Leung Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuation was arrived at by reference to recent market transactions in comparable properties and net rental income allowing for reversionary income potential.

14. INVESTMENT PROPERTIES

	The Group RMB'000
Fair value	
At 1 January 2010	46,000
Fair value gain	9,000
At 31 December 2010 and 1 January 2011	55,000
Fair value gain	9,000
Reclassification from leasehold land and building held for own use (notes 13(b) and 15(b))	4,600
At 31 December 2011	68,600

a) The Group's investment properties were revalued as at 31 December 2011 and 2010 respectively on an open market value basis calculated by reference to recent market transactions in comparable properties and net rental income allowing for reversionary income potential. The valuations were carried out by an independent firm of valuers, DTZ Debenham Tie Leung Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

b) The Group's investment properties are held under medium-term lease in the PRC.

c) The Group's investment properties were pledged to secure banking facilities granted to the Group at 31 December 2010 (note 24(c)).

d) The Group leases out investment properties under operating leases. The leases run for a period for one to three years (2010: one to four years). None of the leases include contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2011 RMB'000	2010 RMB'000
Within 1 year	**1,032**	1,493
After 1 year but within 5 years	**327**	857
	1,359	2,350

15. PREPAID LEASE PAYMENTS

	The Group RMB'000
Cost	
1 January 2010, 31 December 2010 and 1 January 2011	7,583
Surplus on revaluation (Note 15(b))	605
Less: elimination on accumulated amortisation	(308)
Reclassification to investment property (Note 15(b))	(3,870)
At 31 December 2011	4,010
Accumulated amortisation	
At 1 January 2010	81
Amortisation for the year	243
At 31 December 2010 and 1 January 2011	324
Amortisation for the year	190
Eliminated on revaluation	(308)
At 31 December 2011	206
Carrying amount	
At 31 December 2011	3,804
At 31 December 2010	7,259

a) The Group's prepaid lease payments comprise land use rights held under medium term leases in the PRC.

b) During the year, the Group's land held for own use was leased out to two independent third parties under operating leases. Upon the change of use, the land was revalued at fair value with a surplus on revaluation of RMB605,000 and was recognised in the Group's property revaluation reserve, and the carrying value of the land of RMB3,870,000 was reclassified to investment property (note 14). The fair value was arrived at on the basis of the valuation carried out by an independent firm of valuers, DTZ Debenham Tie Leung Limited, who amongst their staff have members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuation was arrived at by reference to recent market transactions in comparable properties and net rental income allowing for reversionary income potential.

c) The amortisation charge is included in the administrative expenses in the consolidated income statement.

16. DEPOSIT PAID FOR PROPERTY, PLANT AND EQUIPMENT

During the year, the Group and an independent third party ("the Vendor") entered into an agreement and a supplementary agreement ("the Agreements"), pursuant to which the Group agreed to acquire and the Vendor agreed to sell certain properties ("the Properties") in Shenzhen, in the PRC. The Properties are to be constructed by the Vendor and will be delivered to the Group before September 2013 and used as the Group's office. The proposed consideration is RMB75,000,000 which is subject to adjustment when the details of the Properties are fixed. The Group paid deposit of RMB10,000,000 during the year. Subsequent to the end of the reporting period, the Group paid further deposit of RMB20,000,000 (note 34).

17. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2011 **RMB'000**	2010 RMB'000
Unlisted shares, at cost	**222,952**	155,864

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary, except for the subsidiary which was established in the PRC.

Name	Place of incorporation/ operations	Proportion of ownership interest held by the Group at effective interest	Issued and fully paid share capital/ registered capital	Principal activities
BVI Kingworld (note (a))	BVI / Hong Kong	100%	USD111	Investment holding
Kingworld Medicine Healthcare Limited	Hong Kong	100%	HK$195,546,680	Investment holding and distribution sale of branded imported pharmaceutical and healthcare products in Hong Kong
深圳市金活醫藥有限公司 SZ Kingworld (Note (b))	The PRC	100%	RMB160,000,000	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

Notes:

a) Except for BVI Kingworld which is directly owned by the Company, all other subsidiaries are indirectly owned by the Company.

b) Wholly-foreign owned enterprise established in the PRC.

c) The English names of the above PRC subsidiaries are for identification purpose only.

18. JOINTLY CONTROLLED ENTITY

At 31 December 2011, the Group had interests in the following jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation and operation	Registered and paid-up capital	Proportion of ownership interest held by the Group at effective interest	Principal activities
珠海市金明醫藥有限公司 Zhuhai City Jinming Medicine Company Limited	Limited liability company	The PRC	RMB5,000,000	50%	Distribution sale of branded imported pharmaceutical and healthcare products in the PRC

The summarised financial statements in respect of the Group's interests in the jointly controlled entity, which are accounted for using proportionate consolidation with the line-by-line reporting format, is set out below:

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Non-current assets	**7,199**	4,811
Current assets	**25,033**	22,921
Current liabilities	**(13,798)**	(17,302)
Net assets	**18,434**	10,430

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Income	**81,420**	76,916
Expenses	**(70,953)**	(69,533)
Profit before taxation	**10,467**	7,383
Income tax	**(2,463)**	(1,526)
Profit for the year	**8,004**	5,857
Other comprehensive income	**—**	—

18. JOINTLY CONTROLLED ENTITY *(Continued)*

	2011 RMB'000	2010 RMB'000
Share of the jointly controlled entity's capital commitments at the end of the reporting period:		
Contracted but not provided for:		
Capital expenditure for construction of office premise and warehouse	**16,590**	11,571

19. INVENTORIES

	The Group	
	2011 RMB'000	2010 RMB'000
Trading stocks	**49,140**	59,317

The analysis of the amount of inventories recognised as an expense is as follows:

	2011 RMB'000	2010 RMB'000
Carrying amount of inventories sold	**524,505**	497,558
Write-down of inventories	**225**	341
	524,730	497,899

(Expressed in Renminbi unless otherwise indicated)

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Trade and bills receivables (notes (b) to (e))	**303,221**	208,194	**—**	—
Less: Allowance for doubtful debts (note (c))	**(3,908)**	(2,840)	**—**	—
	299,313	205,354	**—**	—
Other receivables	**4,928**	6,627	**—**	—
Loans and receivables	**304,241**	211,981	**—**	—
Derivative financial instruments (note 27)	**—**	2,129	**—**	—
Prepayments	**9,199**	5,657	**—**	—
Trade and other deposits	**996**	3,158	**—**	—
Trade deposit to a related party (note 32(b))	**14,596**	—	**—**	—
	329,032	222,925	**—**	—

a) All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

b) Ageing analysis

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis presented based on invoice date as of the end of the reporting period:

	The Group	
	2011 RMB'000	2010 RMB'000
0-90 days	**274,741**	156,996
91-180 days	**21,110**	48,358
181-365 days	**1,544**	—
More than 1 year	**1,918**	—
	299,313	205,354

The Group generally granted credit terms ranging from 30 days to 90 days to its customers during the years ended 31 December 2011 and 2010, except for the customers for purchase of the Group's product Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油) to which credit terms within 90 days (2010: 12 months) were granted during the year. Further details on the Group's credit policy are set out in note 28(a).

20. TRADE AND OTHER RECEIVABLES *(Continued)*

c) *Impairment of trade and bills receivable*

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

Movements in the allowance for doubtful debts:

	The Group	
	2011	2010
	RMB'000	RMB'000
At 1 January	**2,840**	2,779
Impairment losses recognised (note 6(c))	**1,150**	268
Uncollectible amounts written off	**(17)**	(207)
Impairment losses reversed (note 6(c))	**(65)**	—
At 31 December	**3,908**	2,840

As at 31 December 2011, the Group's trade and bills receivables of RMB3,908,000 (2010: RMB2,840,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding over a long period and management assessed that receivables are expected to be irrecoverable. Accordingly, specific allowances for doubtful debts of RMB3,908,000 (2010: RMB2,840,000) were recognised as at 31 December 2011. The Group does not hold any collateral over these balances.

20. TRADE AND OTHER RECEIVABLES *(Continued)*

d) *Trade and bills receivables that are not impaired*

The ageing analysis of trade and bills receivables (net of allowance for doubtful debts) that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Neither past due nor impaired	**274,741**	184,326
Past due but not impaired		
– 91 -180 days	**21,110**	21,028
– 181 - 365 days	**1,544**	—
– More than 1 year	**1,918**	—
	24,572	21,028
	299,313	205,354

Receivables that were neither past due nor impaired relate to a wide range of customers for which there was no recent history of default.

Receivables that were past due but not impaired relate to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

e) Bills receivables of RMB68,586,000 (2010: RMB15,800,000) as at 31 December 2011 were pledged to banks for bank loans and banking facilities granted to the Group (note 24(c)).

21. PLEDGED BANK DEPOSITS

All bank deposits are pledged to banks as security for banking facilities granted to the Group (see note 24(c)). Pledged banks deposits carry interest at market rate of 0.5% (2010: 0.4% to 2.5%) per annum for the year ended 31 December 2011.

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank balances	**140,704**	269,312	**119,902**	224,290
Cash on hand	**337**	214	**—**	—
Cash and cash equivalents in the consolidated and the Company's statement of financial position and the consolidated statement of cash flows	**141,041**	269,526	**119,902**	224,290

Deposits with banks carry interest at market rates ranging from 0.1% to 0.5% (2010: 0.1% to 0.4%) per annum for the year ended 31 December 2011.

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills payables (notes (b) and (c))	**120,901**	134,137	**—**	—
Accruals	**3,132**	2,559	**592**	618
Other payables	**21,762**	16,105	**677**	3,286
Amounts due to subsidiaries (note (d))	**—**	—	**26,737**	24,423
Financial liabilities measured at amortised cost	**145,795**	152,801	**28,006**	28,327
Trade deposits received	**11,529**	12,716	**—**	—
Receipts in advance	**—**	2,976	**—**	—
	157,324	168,493	**28,006**	28,327

a) All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

23. TRADE AND OTHER PAYABLES *(Continued)*

b) Ageing analysis

Included in trade and other payables are trade and bills payables with the following ageing analysis presented based on invoice date as of the end of the reporting period. The credit terms granted by the suppliers were generally ranging from 45 days to 90 days during the year.

	The Group	
	2011	2010
	RMB'000	RMB'000
0-90 days	**112,409**	130,108
91-180 days	**8,492**	1,690
181-365 days	**—**	2,339
	120,901	134,137

c) Bills payables of RMB8,492,000 (2010: RMB7,093,000) as at 31 December 2011 were pledged by the Group's bank deposits (note 24(c)).

d) The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

24. BANK LOANS

The bank loans are secured and repayable as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Within 1 year or on demand	**47,168**	197,846

a) All of the bank loans are carried at amortised cost.

24. BANK LOANS *(Continued)*

b) The range of effective interest rates on the Group's bank loans are as follows:

	The Group	
	2011	2010
Effective interest rates:		
Fixed rate loans	**6.7% - 12.9%**	2.0% - 7.7%
Variable rate loans	**4.9%**	2.3% - 5.4%

c) As at 31 December 2011, the bank loans and bills payables were secured by the following assets of the Group.

	The Group	
	2011	2010
	RMB'000	RMB'000
Investment property (note 14(c))	**—**	55,000
Bills receivables (note 20(e))	**68,586**	15,800
Pledged bank deposits (note 21)	**9,890**	131,873
	78,476	202,673

25. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2011	2010
	RMB'000	RMB'000
Provision for PRC income tax for the year	**17,663**	10,994
Provisional income tax paid	**(4,822)**	(2,333)
	12,841	8,661

25. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION *(Continued)*

b) *Deferred tax assets and liabilities recognised:*

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	The Group			
	Revaluation of investment properties RMB'000	Revaluation of other property RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2010	(258)	—	1,796	1,538
Charged to consolidated income statement (note 7(a))	1,980	—	2,531	4,511
Paid out	—	—	(1,000)	(1,000)
Effect of change in tax rate	(26)	—	—	(26)
At 31 December 2010	1,696	—	3,327	5,023
At 1 January 2011	**1,696**	**—**	**3,327**	**5,023**
Charged to consolidated income statement (note 7(a))	**2,160**	**—**	**2,667**	**4,827**
Charged to property revaluation reserve	**—**	**165**	**—**	**165**
Paid out	**—**	**—**	**(1,549)**	**(1,549)**
Effect of change in tax rate	**154**	**—**	**—**	**154**
At 31 December 2011	**4,010**	**165**	**4,445**	**8,620**

c) *Deferred tax assets and liabilities not recognsied*

There were no significant unrecognsied deferred tax assets and liabilities of the Group and the Company as at 31 December 2011 and 2010.

26. SHARE CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of the equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Contributed surplus RMB'000 (note e)	Warrant reserve RMB'000 (note g)	Exchange reserve RMB'000 (note h)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	**53,468**	**152,700**	**155,863**	**—**	**(2,388)**	**(7,816)**	**351,827**
Change in equity:							
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(159)**	**(159)**
Other comprehensive loss for the year	**—**	**—**	**—**	**—**	**(17,914)**	**—**	**(17,914)**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**(17,914)**	**(159)**	**(18,073)**
Transfer	**—**	**—**	**(30,000)**	**—**	**—**	**30,000**	**—**
Dividend	**—**	**—**	**—**	**—**	**—**	**(19,206)**	**(19,206)**
Issue of warrant	**—**	**—**	**—**	**300**	**—**	**—**	**300**
At 31 December 2011	**53,468**	**152,700**	**125,863**	**300**	**(20,302)**	**2,819**	**314,848**
At 1 January 2010	—	—	—	—	—	—	—
Change in equity:							
Loss for the year	—	—	—	—	—	(7,816)	(7,816)
Other comprehensive loss for the year	—	—	—	—	(2,388)	—	(2,388)
Total comprehensive loss for the year	—	—	—	—	(2,388)	(7,816)	(10,204)
Shares issued for acquisition of a subsidiary pursuant to the Reorganization	1	—	155,863	—	—	—	155,864
Capitalisation issue	38,650	(38,650)	—	—	—	—	—
Shares issued upon placing and public offering	12,883	193,252	—	—	—	—	206,135
Shares issued upon exercise of the over-allotment option	1,934	29,015	—	—	—	—	30,949
Share issuance cost	—	(30,917)	—	—	—	—	(30,917)
At 31 December 2010	53,468	152,700	155,863	—	(2,388)	(7,816)	351,827

(Expressed in Renminbi unless otherwise indicated)

26. SHARE CAPITAL AND RESERVES *(Continued)*

a) *Share Capital*

The Company

	Note	Number of shares '000	Amount HK$'000	Amount equivalent to RMB$'000
Authorised:				
Ordinary shares of HK$0.1				
At 1 January 2010	(i)	3,800	380	334
Increase in authorised share capital	(ii)	9,996,200	999,620	877,566
At 31 December 2010 ,1 January 2011 and 31 December 2011		10,000,000	1,000,000	877,900
Issued and fully paid:				
Ordinary shares of HK$0.1				
At 1 January 2010	(i)	—	—	—
Shares issued for acquisition of a subsidiary pursuant to the Reorganisation	(ii)	9	1	1
Capitalisation issue	(iii)	449,991	44,999	38,650
Shares issued under the placing and public offering	(iv)	150,000	15,000	12,883
Shares issued upon exercise of the over-allotment option	(v)	22,500	2,250	1,934
At 31 December 2010, 1 January 2011 and 31 December 2011		622,500	62,250	53,468

26. SHARE CAPITAL AND RESERVES *(Continued)*

a) Share Capital *(Continued)*

i) The Company was incorporated on 10 July 2008 with an authorised share capital of HK$380,000 comprising 3,800,000 ordinary shares of HK$0.1 each. On the date of incorporation and 25 September 2008, 1 and 99 ordinary shares, respectively, of HK$0.1 each were issued and fully paid.

ii) In preparation for the Company's Listing, the following changes in authorised and issued share capital of the Company took place on 5 November 2010:

— the authorised share capital of the Company increased from HK$380,000 to HK$1,000,000,000 by the creation of 9,996,200,000 ordinary shares at par value of HK$0.1 each, ranking pari passu with the existing ordinary shares of the Company in all respects, pursuant to the written resolutions of the shareholders of the Company passed on that date.

— an aggregate of 8,580 ordinary shares of the Company of HK$0.1 each were allotted and issued to the then shareholders of Kingworld BVI, credited as fully paid at par, as consideration for the acquisition of the entire issued capital of Kingworld BVI of HK$858 (equivalent to RMB740) pursuant to the Reorganisation.

iii) On 25 November 2010, an aggregate of 449,991,320 ordinary shares of HK$0.1 each were allotted, issued and fully paid at par, by way of capitalisation of the sum of HK$44,999,132 (equivalent to RMB 38,650,000) to the share premium account, to the then shareholders of the Company at the close of business on 5 November 2010 in proportion to their respective then existing shareholding prior to the Company's Listing.

iv) On 25 November 2010, 150,000,000 ordinary shares of HK$0.1 each were issued upon the placing and public offering at a price of HK$1.6 per share for an aggregate gross proceeds of HK$240,000,000 (equivalent to RMB206,135,000), of which HK$15,000,000 (equivalent to RMB12,883,000) and HK$225,000,000 (equivalent to RMB193,252,000) were credited to the share capital and the share premium respectively.

v) On 1 December 2010, the Sole Global Coordinator of the Company's Listing fully exercised the over-allotment option on behalf of the underwriters. The Company allotted and issued an aggregate of 22,500,000 additional shares, representing 15% of the shares initially issued under the placing and public offering, at a price of HK$1.6 per share with an aggregate gross proceeds of HK$36,000,000 (equivalent to RMB30,949,000), of which HK$2,250,000 (equivalent to RMB1,934,000) and HK$33,750,000 (equivalent to RMB29,015,000) were credited to the share capital and the share premium respectively.

b) Share premium

The application of the share premium account of the Company is governed by the Companies Law of the Cayman Islands.

c) Capital reserve

Capital reserve represents the excess of paid-up capital over the registered capital of the subsidiaries comprising the Group prior to the Company's Listing.

26. SHARE CAPITAL AND RESERVES *(Continued)*

d) *Statutory and discretionary reserves*

The Group's PRC subsidiaries are required to transfer 10% of their net profits as determined in accordance with the PRC regulations to the statutory reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The transfer of net profits to the discretionary reserve of the Group's PRC subsidiaries is determined by the owners in general meetings in accordance with the article of association and the PRC regulations. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

The statutory and discretionary reserves are non-distributable. They can be used to reduce previous years' losses, if any, and may be converted into share capital by the issue of new shares to owners in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

e) *Contributed surplus*

The Group's contributed surplus represents the difference between the nominal value of the shares issued by the Company and the aggregate of the share capital and share premium of the subsidiaries acquired upon the Reorganisation.

The Company's contributed surplus represents the excess of total net assets of the subsidiaries acquired, pursuant to the Reorganisation prior to the Company's Listing, over the nominal value of the Company's shares issued in exchange therefore.

f) *Property revaluation reserve*

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for leasehold land and buildings held for own use in notes 2(h) and 2(i).

g) *Warrant reserve*

Warrant reserve represents the net proceeds received from the issue of warrants of the Company. The reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants.

On 22 September 2011, the Company issued 37,000,000 warrants at the issue price of HK$0.01 per warrant. Each warrant is entitled to subscribe for one new ordinary share of the Company at an exercise price of HK$1.4 per share for a period of 18 months commencing from the issue date of the warrants. During the year, no new shares were issued upon exercise of the warrants.

h) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(s).

26. SHARE CAPITAL AND RESERVES *(Continued)*

i) Distributable reserves

i) Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

ii) At 31 December 2011, the aggregate amount of reserves available for distribution to owners of the Company was RMB281,382,000 (2010: RMB300,474,000). After the end of the reporting period, the directors proposed a final dividend of HK4.04 cents (equivalent to RMB3.27 cents) (2010: HK3.71 cents (equivalent to RMB3.12 cents)) per share amounting to RMB20,356,000 (2010: RMB19,417,000) (note 9(a)). The proposed final dividend has not been recognised as a liability at the end of the reporting period.

j) Capital management

The Group's objectives when managing capital are to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt.

The Group monitors its capital structure on the basis of a debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. The Group defines net debt as interest-bearing bank loans less pledged bank deposits and cash and cash equivalents. Adjusted capital comprises all components of equity.

The Group's net debt-to-adjusted capital ratio at 31 December 2011 and 2010 were as follows:

	2011 **RMB'000**	2010 RMB'000
Bank loans	**47,168**	197,846
Total debt	**47,168**	197,846
Less: Pledged bank deposits	**(9,890)**	(131,873)
Cash and cash equivalents	**(141,041)**	(269,526)
Net debt	**—**	—
Total equity	**394,497**	370,308
Net debt-to-adjusted capital ratio	**0%**	0%

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in either the current or prior years.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group	
	2011	2010
	RMB'000	RMB'000
Forward foreign exchange contracts at fair value and included under current assets (note 20)	—	2,129
Notional principal amounts of forward foreign exchange contracts outstanding at the end of the reporting period	—	122,047

a) All forward foreign exchange contracts had the maturity period within or on one year.

b) Derivative financial assets represented the amounts the Group would receive if the position was closed at the end of the reporting period.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include cash and bank balances, pledged bank deposits, trade and other receivables and payables and bank loans. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, interest rate risk, currency risk and business risk. The policies on how to mitigate these risks are set out as below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

i) As at 31 December 2011, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

ii) In respect of trade receivables, in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Trade receivables are usually due within 30 days to 90 days from the date of billing, except for the receivables in relation to the Group´s product Flying Eagle Wood Lok Medicated Oil, which are due within 90 day (2010: 12 months) from the date of billing during the year.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

a) *Credit risk* *(Continued)*

iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had certain concentration of credit risk of 8% (2010: 2%) of the total trade receivables due from the Group's largest customer and 24% (2010: 27%) of the total trade receivables due from the Group's five largest customers as at 31 December 2011.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 20.

iv) In respect of other receivables, the credit quality of the debtors is assessed by taking into account of their financial position, relationship with the Group, credit history and other factors. Management regularly reviews the recoverability about these other receivables and follow up the amounts overdue, if any. The directors are of the opinion that the probability of default by counterparties is low.

v) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings given by international credit-rating agencies.

b) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

b) *Liquidity risk* *(Continued)*

The following liquidity risk tables set out the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group and the Company is required to pay:

	The Group		
	Within 1 year or on demand RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Carrying amount RMB'000**
2011			
Non-derivative financial liabilities			
Trade and bills payables	**120,901**	**120,901**	**120,901**
Accruals	**3,132**	**3,132**	**3,132**
Other payables	**21,762**	**21,762**	**21,762**
Bank loans	**47,168**	**47,168**	**47,168**
	192,963	**192,963**	**192,963**
2010			
Non-derivative financial liabilities			
Trade and bills payables	134,137	134,137	134,137
Accruals	2,559	2,559	2,559
Other payables	16,105	16,105	16,105
Bank loans	197,846	197,846	197,846
	350,647	350,647	350,647

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

b) Liquidity risk (Continued)

		The Company	
	Within 1 year or on demand RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2011			
Non-derivative financial liabilities			
Accruals	**592**	**592**	**592**
Other payables	**677**	**677**	**677**
Amounts due to subsidiaries	**26,737**	**26,737**	**26,737**
	28,006	**28,006**	**28,006**
2010			
Non-derivative financial liabilities			
Accruals	618	618	618
Other payables	3,286	3,286	3,286
Amounts due to subsidiaries	24,423	24,423	24,423
	28,327	28,327	28,327

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

c) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank loans and bank balances (notes 24 and 22) and fair value interest rate risk in relation to fixed-rate bank loans and pledged bank deposits (notes 24 and 21).

i) *Interest rate profile*

The following table details the interest rate profile of the Group's bank loans, bank balances and deposits at the end of the reporting period:

	The Group			
	2011		2010	
	Effective interest rates %	**RMB'000**	Effective interest rates %	RMB'000
Fixed rate borrowings: Bank loans	**6.7-12.9**	**14,740**	2.0-7.7	105,021
Variable rate borrowings: Bank loans	**4.9**	**32,428**	2.3-5.4	92,825
Total borrowings		**47,168**		197,846
Net fixed rate borrowings as a percentage of total borrowings		**31%**		53%
Variable rate bank balances	**0.1-0.5**	**140,704**	0.1-0.4	269,312
Fixed rate pledged bank deposits	**0.5**	**9,890**	0.4-2.5	131,873

ii) *Sensitivity analysis*

All of the bank loans and the pledged deposits of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank loans and bank balances, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB1,082,000 (2010: RMB1,765,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual end of the reporting period. The analysis is performed on the same basis for the 2010.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) Currency risk

The Group is exposed to currency risk primarily through purchases which give rise to trade and bills payables, bank balances and bank loans that are denominated in foreign currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("USD") and Hong Kong dollars ("HK$") to the extent that they are not the functional currency of the operations to which the transactions and balances related. The Group may consider to enter into forward foreign exchange contracts to manage its foreign currency risk arising from above anticipated transactions denominated in foreign currencies.

i) Exposure to currency risk

	The Group	
	2011 RMB'000	2010 RMB'000
Assets/(Liabilities)		
Cash and cash equivalents		
HK$	**80**	8
Trade and bills payables		
HK$	**(119,727)**	(132,699)
Bank loans		
USD	**—**	(89,221)
HK$	**(32,428)**	(32,825)
Derivative financial assets		
USD	**—**	1,486
HK$	**—**	643
Total assets		
USD	**—**	1,486
HK$	**80**	651
Total liabilities		
USD	**—**	(89,221)
HK$	**(152,155)**	(165,524)

(Expressed in Renminbi unless otherwise indicated)

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

d) *Currency risk* *(Continued)*

ii) *Sensitivity analysis*

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

	The Group		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
At 31 December 2011			
USD	**5%**	**—**	**—**
	(5%)	**—**	**—**
HK$	**5%**	**(7,603)**	**—**
	(5%)	**7,603**	**—**
At 31 December 2010			
USD	5%	(4,387)	—
	(5)%	4,387	—
HK$	5%	(8,244)	—
	(5)%	8,244	—

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual end of the reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2010.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

e) *Business risk*

The Group has a certain concentration of business risk as 76% (2010: 72%) of its total turnover during the year from a principal product, Nin Jiom Pei Pa Koa（京都念慈庵蜜煉川貝枇杷膏）, which was purchased from a sole supplier that is the designated distributor of the manufacturer of Nin Jiom Pei Pa Koa. In April 2010, the Group entered into a three-year period distribution agreement with the manufacturer and the supplier of Nin Jiom Pei Pa Koa, pursuant to which the Group is entitled the non-exclusive distribution right to sell Nin Jiom Pei Pa Koa in certain provinces in the PRC and is granted the credit terms of 60 days. If there is any change in consumer taste and demand of the product, or the supplier does not renew the purchase agreement, the Group's turnover and profitability will be adversely affected.

f) *Fair value measurements recognised in the statement of financial position*

The following table provides an analysis of financial instruments that are measured at fair value at the end of the reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair value measurements are those derived from using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

	The Group	
	2011	2010
	Level 2	Level 2
	RMB'000	RMB'000
Financial assets at fair value through profit or loss		
Derivative financial assets	—	2,129

Save as disclosed above, the fair values of cash and bank balances, pledged bank deposits, trade and other receivables and payables and bank loans are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial instruments. The carrying amounts of bank loans approximate their fair values.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

g) *Estimation of fair values*

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

i) *Interest-bearing bank loans*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

ii) *Forward foreign exchange contracts*

The fair value of forward foreign exchange contracts is determined by using the forward exchange rates at the end of the reporting period and comparing to the contractual rates.

29. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

a) *Depreciation*

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

b) *Impairment of assets*

If circumstances indicate that carrying value of the Group's property, plant and equipment and prepaid lease payments may not be recoverable, the assets may be considered impaired, and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volumes, sales revenue and amount of operating costs.

29. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

c) *Valuation of investment properties*

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed annually by independent qualified valuers, after taking into consideration on an open market value basis calculated by reference to recent market transactions in comparable properties and the net rental income allowing for reversionary income potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

d) *Impairment for bad and doubtful debts*

The Group estimates allowance for impairment of doubtful debts on trade and other receivables resulting from inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, debtor credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimates.

e) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of the reporting period.

f) *Income tax*

Determining income tax provision involves judgement on the future tax treatment of certain transactions. The directors carefully evaluate tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, the directors' judgement is required to assess the probability of future taxable profits. The directors' assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

g) *Interests in subsidiaries*

Interests in subsidiaries are carried at cost less any impairment. Judgement is required when determining whether an impairment existed. In making this judgement, historical data and factors such as industry, sector performance and financial information regarding the subsidiaries are taken into account.

30. COMMITMENTS

a) Commitments under operating lease

As at 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2011	2010
	RMB'000	RMB'000
Within one year	**2,601**	2,563
In the second to fifth year inclusive	**1,949**	3,269
	4,550	5,832

The Group leases certain premises for use as its office and warehouse under operating leases arrangements. Leases for properties are negotiated for terms ranging from one to four years (2010: one to two years). None of the leases include contingent rentals.

b) Capital commitments

Save as disclosed in note 18, the Group had the following capital commitments as at 31 December 2011:

	2011	2010
	RMB'000	RMB'000
Contracted but not provided for		
property, plant and equipment	**65,000**	—

c) The Company did not have any significant commitment as at 31 December 2011 and 2010.

31. EMPLOYEE RETIREMENT BENEFITS

The Group participates in a state-managed scheme. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute ranging from 10% to 19% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income statement of RMB3,926,000 (2010: RMB 2,706,000) represents contributions payable to these schemes by the Group during the year.

32. RELATED PARTY TRANSACTIONS

a) During the year, the directors are of the opinion that the following companies and parties are related parties of the Group:

Name of related parties	Relationship
Mr. Zhao	The Company's director and the sole shareholder of the ultimate holding company of the Company
Ms. Chan	The Company's director and the wife of Mr. Zhao
Huang Lanjiao ("Ms. Huang")	Mother of Mr. Zhao
Morning Gold Medicine Company Limited ("Morning Gold")	Wholly owned by both Mr. Zhao and Ms. Chan
Yuen Tai Pharmaceuticals Limited ("Yuen Tai")	Subsidiary of Morning Gold
深圳市金活利生藥業有限公司 Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited ("SZ Kingworld Lifeshine")	Subsidiary of Morning Gold
深圳市金活實業有限公司 Shenzhen Kingworld Industry Company Limited ("SZ Industry")	Indirectly wholly owned by both Mr. Zhao and Ms. Chan
上海金活實業有限公司 Shanghai Kingworld Industry Company Limited ("SH Industry")	Subsidiary of SZ Industry
廣東金保利醫藥有限公司 Guangdong Jinbaoli Medicine Company Limited ("Jinbaoli")	Note (i)
深圳市金世界百貨物業管理有限公司 Shenzhen Kingworld Department Store Property Management Company Limited ("Kingworld Department Store Property Management")	Note (ii)

Notes:

i) The related party was owned and controlled by Mr. Huang Ruozhong ("Mr. Huang"), the legal representative and director of certain PRC subsidiaries of the Group, and a close family member of Ms. Chan during the year ended 31 December 2009. During the year ended 31 December 2010, the related party ceased to be owned and controlled by Mr. Huang and the close family member of Ms. Chan.

ii) The related party is owned and controlled by Ms. Huang, Ms. Chan and a close family member of Ms. Chan.

iii) The English names of the above PRC incorporated entities are for identification purpose only.

32. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions and balances

Recurring transactions

In the opinion of the Company's directors, the following related party transactions continue after the Company's Listing:

	Note	The Group 2011 RMB'000	 2010 RMB'000
Purchases of goods			
SZ Kingworld Lifeshine	(i)	**19,848**	7,769
Yuen Tai	(i)	**392**	—
		20,240	7,769
Rental expenses			
SZ Industry	(i)	**723**	549

Save as disclosed above, the Group had the following related party transactions during the year:

— SZ Industry granted certain rights to the Group to use its trademarks and distribution right for sale of goods in the PRC and its domain names "Kingworld.cn" and "Kingworld.com.cn" with a nil consideration during the years ended 31 December 2011 and 2010.

— The Group acquired an investment property from SZ Industry in 2008 and leased out the property to two independent tenants under two lease agreements, pursuant to which the management service fee is borne by the tenants. SZ Industry and Kingworld Department Store Property Management entered into a property management contract on 1 January 2008, pursuant to which Kingworld Department Store Property Management was appointed to provide building management service to SZ Industry's property, which was subsequently sold to the Group during the year ended 31 December 2008, for a period from 1 January 2008 to 31 December 2011 at a management service fee of RMB401,000 per year. The Group in the capacity of the owner of the property is jointly liable with SZ Industry for the management service fee if the tenants of the Group fail to pay the management service fee.

Non-recurring transactions

In the opinion of the Company's directors, the following related party transactions discontinued after the Company's Listing:

	Note	The Group 2011 RMB'000	 2010 RMB'000
Staff costs			
SH Industry	(ii)	**—**	117

32. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions and balances *(Continued)*

Amounts due from related parties

		The Group			
		Outstanding balance		Maximum outstanding balance	
	Note	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Mr. Zhao					
Other receivable	(iii)	**—**	—	**—**	14,400
Ms. Chan					
Other receivable	(iii)	**—**	—	**—**	3,600
Yuen Tai					
Other receivable	(iii)	**—**	—	**—**	9,418
SZ Kingworld Lifeshine					
Other receivable	(iii)	**—**	—	**—**	4,218
Trade deposit	(iv)	**14,596**	—	**—**	—
SZ Industry					
Other receivable	(iii)	**—**	—	**—**	18,800
Jinbaoli					
Other receivable	(iii)	**—**	—	**—**	35,234
Trade deposit included in trade and other receivables (note 20)	(iv)	**14,596**	—		

32. RELATED PARTY TRANSACTIONS *(Continued)*

b) Related party transactions and balances *(Continued)*

Amounts due from related parties *(Continued)*

Notes:

i) The transactions were based on the terms mutually agreed between the Group and the respective related parties. In the opinion of the Company's directors, these related parties' transactions were conducted in the ordinary course of business.

ii) The transactions were based on the terms mutually agreed between the Group and the related party.

iii) On 4 November 2010, the Group formalised the existing loan arrangement by entering into the loan agreements with each of three related parties, Mr. Zhao, Ms. Chan and SZ Industry, pursuant to which the Group made a loan to each of Mr. Zhao and Ms. Chan of HK$16,800,000 (equivalent to RMB14,400,000) and HK$4,200,000 (equivalent to RMB3,600,000) respectively on 18 October 2010 and certain loans to SZ Industry in an aggregate amount of RMB18,800,000 in the period between September 2010 and October 2010. All of these loans were unsecured, interest-free and repaid by two installments of 50% each on or before 8 November 2010 and 21 November 2010 respectively. Save as disclosed above, all other amounts due from related parties were unsecured, interest-free and had no fixed terms of repayment. All amounts due from related parties were settled prior to the Company's Listing.

iv) The amount is unsecured and interest-free and will be set-off against the Group's purchases from the related party in next twelve months after the end of the reporting period.

c) Save as disclosed above, a related party provided the following guarantee for banking facilities granted to the Group:

Year ended 31 December 2010

i) Mr. Zhao made a personal guarantee of RMB100,000,000 until the guarantee was released in September 2010.

d) Key management personnel remuneration:

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 11 and certain of the highest paid employees as disclosed in note 12, is as follows:

	2011 **RMB'000**	2010 RMB'000
Salaries, allowances and other benefits	**5,599**	3,907
Discretionary bonus	**772**	2,347
Contributions to defined contribution retirement plan	**262**	300
	6,633	6,554

(Expressed in Renminbi unless otherwise indicated)

33. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The Company's directors consider the immediate and ultimate holding company of the Company as at 31 December 2011 to be Golden Land International Limited, a company incorporated in the BVI.

34. EVENT AFTER REPORTING PERIOD

The Group and the Company had the following event after the reporting period:

As detailed in note 16, the Group paid further deposit of RMB20,000,000 for the proposed acquisition of the Properties subsequent to the end of the reporting period and up to the date of approval of these financial statements pursuant to the Agreements.

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new and revised standards and interpretations which are not yet effective for the year ended 31 December 2011.

The Group has not early applied any of the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 9	Financial Instruments[6]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statetments[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial liabilities[5]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2014.
6 Effective for annual periods beginning on or after 1 January 2015.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Financial Summary

	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
	For the year ended 31 December				
Results					
Turnover	**685,562**	638,046	556,417	536,021	527,327
Profit before taxation	**73,816**	58,342	46,753	45,441	35,570
Income tax	**(22,785)**	(15,479)	(9,509)	(11,044)	(6,335)
Profit for the year	**51,031**	42,863	37,244	34,397	29,235
Attributable to					
Owners of the Company	**51,031**	42,863	37,244	34,397	29,235
Asset and Liabilities					
Total assets	**620,450**	750,331	641,691	547,853	499,439
Total liabilities	**225,953**	380,023	485,663	428,918	367,279
Equity attributable to owners of the Company	**394,497**	370,308	156,028	118,935	132,160

Note:

The summary of the results and assets and liabilities for each of the three years ended 31 December 2009 were extracted from the Company's Prospectus dated 12 November 2010 and prepared on a combined basis as if the current structure of the Group has been in existence throughout the years.